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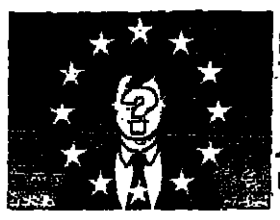
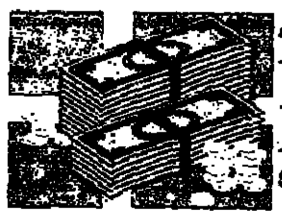
Painful recovery
Turkey pulls back from the brink
Page 15



Secret campaigns
The race to succeed Jacques Delors
Page 2

1994 World Cup
Sponsors target global goals
Page 10



Today's surveys
Danish Banking Section III
International Hotels Section IV

FINANCIAL TIMES

Europe's Business Newspaper THURSDAY, APRIL 7 1994 D8523A

UN commander to mediate in talks on Bosnian ceasefire

General Sir Michael Rose, UN military commander in Bosnia, agreed to a Bosnian Serb request to arrange talks with their Moslem enemies on an overall ceasefire in the region. He said the Serbs had pledged to stop shelling the embattled Moslem enclave of Gorazde, to which he cancelled a visit yesterday. At least 64 people have been killed and 300 wounded in a week-old upsurge of fighting around the enclave. Page 14

Liberal judge to retire from Supreme Court

Justice Harry Blackmun (left), the US Supreme Court's leading liberal, announced his retirement at the end of the court's summer term. President Bill Clinton, who will nominate his successor, is thought likely to pick someone close to Justice Blackmun's views, meaning little immediate change in the political balance of the Court. The prospect of rightwing domination of the bench, which seemed likely during the Reagan and Bush presidencies, has receded. Page 14

Dresdner Bank, Germany's second-biggest private sector bank, is expected to raise capital through a private placing of American Depositary Receipts in the US. Page 15

China alarmed by unrest: China sounded the alarm over rising unemployment, growing industrial unrest and the deteriorating health of state industry, which is under pressure in the transition to a market economy. Page 14

Eurotunnel ban: A row involving Eurotunnel, its financial advisers and Swiss Bank Corporation took a surprise turn with a ban on a senior SBC executive taking part in Eurotunnel's proposed £600m-£750m rights issue. Page 15; Lex, Page 14

Judge hits at AT&T/McCaw deal: A US Federal judge has raised objections to American Telephone & Telegraph's planned $12.6bn takeover of McCaw Cellular Communications, though he left open the door to eventual approval of the deal. Page 18

Alcatel Alsthom forecasts profits fall: Pierre Suard, chairman of French energy, telecommunications and transport group Alcatel Alsthom, confirmed his forecast of a fall of between 10 and 20 per cent in net profits this year, but said he was very optimistic for the medium and long term. Page 15

Colonial Mutual Life ahead by 260%: Australian financial services group Colonial Mutual Life Assurance reported a 260 per cent jump in net earnings to A$701.3m (US$501m), helped by last year's bull share market. Page 19

China jails Hong Kong journalist: China was criticised by its own supporters in Hong Kong after it jailed a journalist working in Beijing for the colony's Ming Pao daily for "stealing and spying on state secrets". Page 5

Indians protest at Gatt accord: Thousands of protesters rallied in New Delhi to oppose the Uruguay Round agreement on world trade liberalisation. Speakers condemned it as an instrument of oppression foisted on the developing world. Page 6

Hungary paves way for power sell-off: Hungary's parliament broke the country's national monopoly on electricity generation, creating the conditions for eastern Europe's first wholesale power privatisation. Page 2

Bernard Matthews, UK turkey products group, moved into red meat production with the purchase of state-owned New Zealand lamb business Advanced Foods. Page 23

Astra in Japanese deal: Swedish drugs group Astra has lifted its stake in Japanese partner Fujisawa to 90 per cent in a SKr1.8bn ($225m) deal. Page 15

Cerus, French holding company controlled by Italian industrialist Carlo de Benedetti, achieved a sharp reduction in net losses last year to FFr251m ($43.05m) from FFr1.55bn in 1992. Page 16

England pulls out of soccer match: England pulled out of a friendly football match with world champions Germany, due to be played in Berlin on April 20, the anniversary of Hitler's birth, because of fears of neo-fascist violence.

■ STOCK MARKET INDICES

FT-SE 100:	3,131.5	(+15.3)
Yield	3.88	
FT-SE Eurotrack 100	1,446.03	(+19.38)
FT-SE-A All-Share	1,588.52	(+0.5%)
Nikkei	19,698.74	(+133.53)
New York: lunchtime		
Dow Jones Ind Ave	3,663.60	(-11.81)
S&P Composite	445.94	(-2.35)

■ US LUNCHTIME RATES

Federal Funds:	3 3/8%
3-mo Treas Bills: Yld	3.694%
Long Bond	87 3/16
Yield	7.31%

■ LONDON MONEY

3-mo Interbank	5 3/8%	(5 1/2%)
Liffe long gilt future:	Jun 108 1/16	(Jun 107 13/16)

■ NORTH SEA OIL (Argus)

Brent 15-day (May)	$14.40	(14.39)

■ Gold

New York Comex (Jun)	$387.1	(386.7)
London	$383.5	(385.4)

■ STERLING

New York lunchtime:		
$	1.469	
London:		
$	1.4678	(1.4638)
DM	2.5173	(2.4987)
FFr	8.6074	(8.5388)
SFr	2.1275	(2.1046)
Y	153.49	(151.857)
£ Index	79.8	(79.3)

■ DOLLAR

New York lunchtime:		
DM	1.715	
FFr	5.87	
SFr	1.4485	
Y	104.515	
London:		
DM	1.7151	(1.7071)
FFr	5.8644	(5.832)
SFr	1.4495	(1.4378)
Y	104.575	(103.745)
$ Index	66.6	(66.4)

Tokyo close Y 104.34

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Pso60	Syria	S£50.00
France	FFr9.00	Kuwait	Fils625	Poland	Zl32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L13000
						UAE	Dh12.00

Revenge attack by Islamic extremist group fails to derail peace talks with PLO

Eight die as suicide car bomber hits Israeli bus

By Julian Ozanne in Afula, northern Israel

A suicide car bomber blew up a bus in Israel yesterday killing eight people and wounding about 45. The attack was an attempt by the extremist Islamic Hamas movement to take revenge for the Hebron massacre in February and destroy the Israeli-Palestinian peace process.

Witnesses said children fled the blast "burning like torches" when the 385lb bomb exploded at midday at a central bus stop in the relatively peaceful northern town of Afula.

The attack, one of the bloodiest yet seen inside Israel itself, prompted the government to seal off the occupied territories preventing Palestinian cars crossing into the Jewish state.

However, Mr Yossi Sarid, environment minister, said Israeli-Palestinian peace talks under way in Cairo would continue. Otherwise "we are placing ourselves in the hands of these suicide bombers – and that is their wish," he added.

The bombing by Hamas, which had vowed to avenge the lives of 29 Palestinians massacred by a Jewish settler in Hebron, will fuel growing Israeli rightwing opposition to the peace process.

As promised in a previous leaflet, Hamas struck 40 days after the February 25 Hebron massacre – the mourning period which, in Islam, must be observed before revenge can be taken. The Islamic movement warned Israel suicide operations would increase.

Shlomi Dahn, an 18-year-old schoolboy who ran to the scene immediately after the blast, said screaming people whose clothes were on fire were trying to escape from the bus.

"It was like a battlefield," he said. "Bodies and parts of bodies were everywhere and there was blood, noise, smoke – everything like war."

Mr David Harbi, keeper of a music store who also rushed to the scene, had burns on the palms of his hands where he had tried to douse flames on the victims' clothes before ambulance workers arrived.

"It was like the worst nightmare of the Jews – the feeling that if the Arabs have the chance they will drive us into the sea or kill us all."

In the aftermath Arabs in the town were randomly beaten. Israeli teenagers gathered at the charred bus stop to denounce the peace process and the government of Mr Yitzhak Rabin.

Mr Harbi said: "The absurd thing was that in one of the school bags I saw Arabic language books. The child was trying to learn Arabic to prepare for the peace."

Mark Nicholson adds from Cairo: Mr Nabil Shaath, who has been leading the Palestinian delegation in the talks with Israel on self-rule for Gaza-Jericho, said such incidents were "one of the reasons we are pushing for the signing of this agreement – to stop the killing on both sides."

Mr Shaath said the attack emphasised the need to complete as soon as possible the final details of an Israeli withdrawal from Gaza and Jericho.

Talks will not now resume until Sunday. The Palestinians still insist agreement on an Israeli withdrawal should be concluded by the original deadline of April 13.

Police and soldiers check the tangled remains of a car destroyed yesterday in an apparent suicide attack in Afula, northern Israel Picture AP

Editorial Comment, Page 13

Japanese PM quips 'I quit' but the joke is on him

By William Dawkins in Tokyo

Yen for an upwardly mobile dinosaur ....Page 12

Mr Morihiro Hosokawa, Japan's embattled prime minister, has discovered that telling jokes to comedians can backfire.

He was obliged yesterday to deny that he wanted to resign after two comedians, also independent members of the upper house of parliament, said Mr Hosokawa had quipped, during dinner, that he was so exhausted he wanted to stand down.

The professional comics divulged their revelation in a television interview after dining with Mr Hosokawa in central Tokyo on Tuesday evening.

Mr Yasushi Shimomura – stage name Columbia Top – expressed surprise that anybody took Mr Hosokawa's outburst seriously.

Mr Kiyoshi Nishikawa, who performs under his own name inside and outside parliament, said he also took the prime minister's resignation remark as a joke.

Under increasing pressure in his post, Mr Hosokawa was said to have told companions that he felt frustrated at not having the freedom to admire the glorious cherry blossoms which have bloomed across Tokyo in the past few days.

Mr Shimomura said he knew Mr Hosokawa was really tired when the prime minister asked if he could finish up the comedian's eels and rice – a dish said to have restorative qualities.

Their remarks whipped up an instant storm. A startled Mr Hosokawa called the latest in a series of midnight press conferences which have become a hallmark of his chaotic government. "I never said anything about quitting," he said.

Mr Hosokawa's slip is the latest blow to his already weakened credibility.

It has aroused suspicions that his patience is indeed being worn down and that coalition allies will now start to seek a replacement.

It was only a matter of time before Mr Hosokawa does resign, said Mr Yoshiro Mori, secretary-general of the opposition Liberal Democratic party. "I think he really did say he wants to quit, because it is about time for him to go," Mr Mori said.

Mr Hosokawa is already struggling to disprove LDP allegations of financial irregularities.

He has been forced into embarrassing U-turns over the past two months on plans for a rise in consumption tax, a cabinet reshuffle and a merger of the seven parties in his coalition.

This latest misunderstanding drew attacks from Mr Hosokawa's own allies and the LDP. The LDP is blocking parliamentary debate on the annual budget until he produces documents or a former aide to testify on an allegedly irregular loan from a disgraced parcel delivery firm.

The budget blockage has caused growing alarm among Japanese businesses.

Mr Takeshi Nagano, chairman of the Nikkeiren employers' federation, yesterday called on the government to give the budget bill top priority and discuss scandal in a panel outside the main session.

N Korea gives Japan a nuclear warning

By John Burton in Seoul

A North Korean official warned yesterday that if his country was to develop nuclear weapons, they would be primarily aimed at Japan, rather than at South Korea or the US.

The warning, one of the most explicit made by North Korea about the intent of its possible nuclear weapons programme, is likely to heighten concern in Tokyo that Pyongyang poses a serious military challenge.

However, North Korean officials claim they suspect Japan's nuclear motives, and the statement yesterday came a day after the start-up of Japan's first fast-breeder nuclear reactor, which began a self-sustaining chain reaction.

Mr Cha Bong-ju, the North Korean ambassador to India, again said his country did not intend to develop nuclear weapons, but told the South Korean news agency Yonhap the North feared that Japan would eventually become a nuclear power.

"Our nuclear arms, if developed, would be primarily designed to contain Japan," Mr Cha said. He added that a North

Continued on Page 14

Swedes pull out of French packager deal

By Christopher Brown-Humes in Stockholm

Sweden's second-largest forestry and packaging group, SCA, yesterday tore up a FFr2bn ($340m) plan to buy 89.8 per cent of Otor Holding, one of France's biggest packaging companies.

SCA also scrapped plans for a SKr1bn ($127m) share issue to foreign investors which would have provided some of the funds for the purchase.

The company said: "SCA and the principal shareholders of Otor have not been able to agree on final terms for the acquisition of Otor by SCA." It declined to elaborate.

The Swedish group appears to have become disenchanted with the deal after Stora, its leading domestic rival, claimed to have first refusal rights over the stake being sold. Stora is the minority shareholder in Otor with a 10.2 per cent holding.

SCA said that Otor's main owners, Mr Jean-Yves Bacques and family, had presented documents showing that the pre-emption rights did not exist. However, Stora was sticking by its position yesterday.

SCA stressed it was not blaming Stora for the collapse of the deal, noting that the companies had had a "constructive dialogue". Stora insisted it had not planned to exercise its first refusal option and said it had been willing to sell its existing stake to its rival.

SCA announced the preliminary agreement to buy Otor less than three weeks ago. It would have been the largest European acquisition by a Swedish forestry group for three years.

The move would have increased its share in the European packaging market in products like corrugated board to 11 per cent from 9 per cent, assisting the group in its wider ambition of building a 15 per cent market position. SCA would have boosted its packaging market share in France from 4.5 per cent to nearly 17 per cent, ranking it second.

The group maintains that its expansion strategy will continue. However, analysts interpreted the announcement as a setback for SCA.

"This means that they will not be nearly as strong as they had hoped to be in the French market," said Mr Denis Christie, paper and packaging analyst with James Capel in London.

SCA would have paid FFr1.77bn initially, and up to FFr255m more under a profits-related formula. Mr Bacques and family would have subscribed to SKr300m of the share issue, with the balance placed with international investors.

SCA's B shares yesterday closed SKr4 higher at SKr134 on the Stockholm exchange.

CONTENTS

© THE FINANCIAL TIMES LIMITED 1994 No 32,335 Week No 14 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Greek bill seeks to boost tax revenue

By Kerin Hope in Athens

Greece's socialist government yesterday unveiled a fiscal package designed in part to counter what it believes to be rampant tax evasion.

The bill, due to go before parliament this week, raises the top income tax rate from 40 to 45 per cent, places an additional 15 per cent tax on dividends from mutual funds and investment companies, and sets criteria for taxing self-employed professionals like architects, doctors and lawyers, groups who are considered to grossly underestimate their income in order to avoid tax.

The new dividends tax comes on top of a 35 per cent tax on equity income which is withheld at source. Greeks are nevertheless required to declare all their equity holdings, together with other non-taxable assets, which are considered indicators of wealth for future tax assessment.

"Probably fewer than 10 per cent of investors put down their holdings on their income tax forms," said one fund manager yesterday.

Mutual funds are currently the fastest growing sector of Greece's financial market with about 80 companies, mostly private Greek banks and insurance concerns, controlling more than Dr1,300bn (£3.55bn). The new fiscal measure is expected to put a temporary brake on that growth and drive liquidity into tax-free government securities.

The socialist administration faces problems in financing the public sector deficit, with a serious revenue shortfall projected this year – the increase in tax revenues for the first two months of this year was less than half the budget projection. The government borrowing requirement is forecast to exceed 15 per cent of gross domestic product against a target of 12.9 per cent.

Other measures included in the new bill are a requirement for taxpayers to disclose the source of funds used to buy property, an important repository for income from the black economy, now estimated to be worth close to 40 per cent of gross domestic product.

Personal income tax receipts in Greece amount to only about 4.5 per cent of GDP, the lowest percentage in the European Union, while the average income declared by self-employed businessmen and professionals is only half that declared by wage-earners.

Mr Alexandros Papadopoulos, finance minister, made a point when introducing the new measures yesterday of stressing that they were not intended to damp growth in the financial sector. He noted that the bill did not require disclosures on the source of funds used to buy shares on the Athens stock exchange. To stimulate more flotations of Greek companies, which still tend to be tightly controlled by family owners and managers, the corporate tax rate for unlisted companies will be raised from 35 to 40 per cent.

Brussels threat on Macedonia embargo

The European Commission yesterday gave Greece an ultimatum to lift its trade embargo against the former Yugoslav republic of Macedonia within seven days or face legal action in the European Court of Justice, writes Lionel Barber in Brussels. The decision in principle to go to the court was combined with a plea to Greece and Macedonia to resume efforts to resolve the dispute over Macedonia's constitution and flag. Athens claims that both amount to territorial claims on the northern Greek province of Macedonia. The Commission said that the trade embargo breaches Greece's obligations under the Treaty of Rome, particularly in the area of a common commercial policy, internal market and customs union.

Hungary paves way for power sell-off

By Nicholas Denton in Budapest

Hungary's parliament yesterday voted through an act regulating the electricity industry and creating the conditions for eastern Europe's first wholesale power privatisation.

The law breaks the national monopoly on electricity generation and distribution held by the electricity utility, MVM, allows for independent utilities and establishes the basis for a division along British lines between power generators and distributors.

Crucially, the legislation, on which the UK merchant bank Schroders has advised the Hungarian government, establishes a legal framework for setting prices. This gives foreign investors the pricing stability they need to bid confidently in the privatisation tender due this summer.

The electricity industry as a whole has a book value of Ft570bn (£3.76bn), the government claims. Its partial sale will be of roughly the same order of magnitude as Hungary's telecommunications privatisation.

Last December, Deutsche Telekom of Germany and Ameritech of the US paid $875m for 30 per cent of national telecoms operator, Matav, in eastern Europe's largest single privatisation.

But the crucial determinant of the size of the transaction is the detailed pricing regulation of the electricity sector, which will flesh out the act passed yesterday and is due in the coming weeks. Tariffs may have to nearly double if the industry is to cover its forecast capital costs, and advisers hope that price rises can close the gap in 3-5 years.

In preparation for the electricity sale, the government has split MVM into eight generating companies and six regional distributors. West European utilities may be permitted to acquire majority stakes in six regional distribution companies.

The authorities also intend to allow complete foreign ownership in four generating companies which rely largely on coal-fired power plants and require modernisation.

The state plans, however, to retain a stake of 25 per cent in three larger conventional power complexes and to keep full control of the Paks nuclear power station.

Hungary has taken a liberal approach to foreign investment in the utilities because of the pressing need to develop infrastructure neglected under communist rule. The industry ministry estimates that the electricity sector must invest Ft220bn-Ft250bn by the year 2000 to replace outmoded capacity with more efficient, cleaner stations.

Brussels Cup a three-horse race

Lionel Barber gives a form guide to runners in the contest to succeed Jacques Delors

Sir Leon Brittan turned up in Brussels on Tuesday night for the latest leg of his twin-track mission for 1994: to make the best-seller list and become the next president of the European Commission.

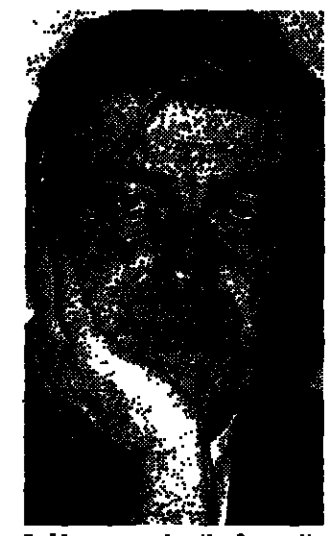
After suffering in (near) silence during the UK government's hapless performance in the European Union voting rights row, the senior British commissioner addressed more than 150 people at W.H. Smith who had gathered for the continental launch of his book "The Europe We Need".

Sir Leon's publicity campaign is impressive but misleading. The real struggle over the succession to Mr Jacques Delors is taking place in secret, among the EU's 12 heads of government. They will decide who gets the top executive job in Brussels, most likely when they meet at the European summit in Corfu in June.

Mr Ruud Lubbers, the long-serving Dutch prime minister, remains favourite. Mr Jean-Luc Dehaene, his Belgian opposite number, is a dark horse making late strides. Mr Felipe González, the Spanish prime minister often rumoured as a candidate, was probably never in the starting-gate.

The secretive nature of the selection process is typical of the way the EU runs much of its business. It is a mixture of patronage, horse-trading, and arm-twisting which offers the European citizen few clues as to the importance of the job.

The Commission president is responsible for an annual budget of Ecu70bn (£53bn). He is in charge of more than 10,000 international civil servants in Brussels, regularly attends international summits, and is the public face of the Union.



Lubbers: remains the favourite

Dehaene: the dark horse

Brittan: a keen campaigner

He also heads an institution with a monopoly on proposing Euro-legislation, something which no national or international service can rival. Increasingly, Brussels is acquiring new responsibilities in social policy, the environment, and research, as well as dispensing aid to eastern Europe and the former Soviet Union.

These myriad tasks require someone with high-class administrative and management skills together with a grasp of economics and a presence on the international stage. A Commission president lacking them risks seeing his role as umpire and power-broker in the Union diluted by the 12 (soon likely to be 16) heads of government.

For most of the past year, Mr Lubbers seemed the natural choice for the job. He could draw on 12 years' experience as Dutch premier and his small-state credentials. This last asset is important because the presidency usually alternates between large and smaller states.

A Lubbers victory seemed even more likely after last October's special summit in Brussels, where EU leaders agreed a wide-ranging deal on the location of a host of new institutions. It was assumed that Chancellor Helmut Kohl's success in winning the European Monetary Institute for Frankfurt – against the rival Amsterdam – had come at the price of a promise to back Mr Lubbers. When Mr González revealed he was committed to Mr Lubbers two months ago, the contest appeared over.

Then, the dynamics of the race changed. A report in the Guardian newspaper stated that Chancellor Kohl and President François Mitterrand had grown cool toward Mr Lubbers and had urged Mr Dehaene to make himself available. The next day, Mr Dehaene's office declined to confirm or deny that he was a candidate, heightening speculation.

Rumours in Brussels and Bonn persist that Mr Kohl is not as keen on Mr Lubbers as was first thought. Memories linger of the Dutch presidency's shaky performance in the run-up to the Maastricht treaty, notably its ill-judged attempt to force the pace on federalism in the autumn of 1991. Another worry is that Mr Lubbers, a prime minister, may turn out to be too big for his boots. Mr Delors, after all, acquired head of state status during his 10 years in Brussels.

Yet Mr Dehaene would undoubtedly be a bit of a gamble. His international exposure is minimal, though he chaired effectively two European summits last year. He has won plaudits as the head of a fragile coalition government struggling to contain linguistic and political rivalries between the French and Flemish population; but his favourite tactic of promising something for everybody and then doing the unexpected could backfire on the the European stage.

Mr Dehaene's biggest disadvantage is that his departure from the domestic scene would risk destabilising the government. The same applies to Mr González who is struggling to keep his Socialist party together. The Spaniard looks a more likely contender in 1999, when the EU budget must be renegotiated and Spain risks losing out to the east Europeans hammering to join.

So the race appears to come down to Mr Lubbers, Sir Leon, and possibly Mr Dehaene. Sir Leon's biggest weakness is his passport. He must convince others that he is a European first and British a distant second. His test will come when Mr Lubbers reveals his intentions, probably after the Dutch general elections on May 2.

A close associate of Mr Lubbers says he is staying silent because he does not want to risk charges that he is putting personal ambition ahead of his duties as premier.

That associate adds: "Lubbers wants the job. Kohl and Mitterrand may not go down on their knees to ask him to take it. They may be irritated that he has not declared his candidacy. But they are well aware that he is running."

To which one of Sir Leon's aides says: "The more the merrier."

Shares shrug off political worries in Italy

By Andrew Hill in Milan

Financial markets yesterday generally shrugged off the threat by Forza Italia, the political party formed by media magnate Silvio Berlusconi to force Italy back to the polls if a new government could not be formed. They had earlier been unsettled by bickering within the right-wing alliance which won last week's general elections.

Despite the prospect of continued political uncertainty, the main Milan stock market index closed nearly 1 per cent higher yesterday, although the lira lost ground against the US dollar and the D-Mark. It closed in London at L1654.83 against the dollar from L1640, and at L965 from L960.8 against the D-Mark. Analysts said they were surprised equities had not suffered, but predicted that Mr Berlusconi and his allies would eventually form a government.

On Tuesday night, Mr Berlusconi raised the political stakes by suspending talks on forming a government. He said negotiations with his ill-matched allies – the federalists of the Northern League and the centralising far-right of the National Alliance – would restart only when President Oscar Luigi Scalfaro had decided who should be prime minister.

The Northern League's leader, Mr Umberto Bossi, has spent most of the last week sniping at Mr Berlusconi, claiming he should not be prime minister. Forza Italia's spokesman hit back yesterday, saying: "If Umberto Bossi betrays the will of the people once again, preventing the formation of a government, there will be no alternative except a return to the polls."

Forza Italia officials believe that if Mr Bossi does not fall into line, several of the League's newly elected deputies could defect to Mr Berlusconi's party.

Mr Bossi was expected to hold talks in Rome yesterday with representatives of the weakened centre parties.

Turkish package fails to put doubts at rest

By Tracy Corrigan in London and John Murray Brown in Ankara

Moody's, the US credit rating agency, yesterday reacted to Turkey's new austerity package by warning it might lower the country's debt rating further. It currently rates Turkey Ba1, considered a sub-investment grade or "junk" rating.

"The package is positive," said Mr Guillermo Estebanez, senior analyst at Moody's. "The reason for the review is whether it is sufficient and whether it is implementable. It is not too late, but it is well into the crisis."

The decision by Moody's reflected a general uncertainty in international and Turkish markets yesterday over the ability of Mrs Tansu Çiller, the prime minister, to implement the tough package of economic reforms she outlined on Tuesday.

While the interbank overnight interest rate, which has been as high as 1,000 per cent in recent weeks, dropped back to 70 per cent yesterday, dealers said they expected the fall to be shortlived. "We think you will see overnight rates move straight back up to a range of 150 per cent to 170 per cent," said one trader at a large US bank. The overnight rate ended the day at about 80 per cent.

However, dealers were slightly more optimistic on the outlook for the currency, which ended the day at about TL40,000 to the dollar. At the start of the year it was trading at around TL15,000. "The lira was looking overvalued, but at this level it may have overshot the mark," said one currency trader.

But investors in Turkey's $8.5bn of foreign bonds are more nervous about the country's ability to service its debt, since recent lira depreciation means Turkey's foreign currency debt has more than doubled. Dealers said Turkey would not be able to return to the international market in the foreseeable future.

The austerity package comprises inflationary price rises, including those of petrol and sugar, and longer term structural reforms such as privatisation, much of which has already been announced. But the key to this package is Ms Çiller's commitment to a three-month fiscal target. "No sensible government is going to commit itself to such a short-term programme if it is not serious. There would just be too much egg on its chin," says Mr Emre Yigit, head of research at Global securities in Istanbul.

Nevertheless, the costs will be impressive. The package calls for the closure of several state companies, including the Karabuk iron and steel works, and says that others, such as the coalmines at Zonguldak and the textile conglomerate Sumer Holding, will close if buyers cannot be found.

The privatisation target of $3.5bn this year seems very ambitious, particularly as economic austerity will hit demand for the output of some companies, such as the Erdemir Iron and Steel works on the Black Sea.

The government will struggle to close mines at Zonguldak. They employ 26,000 in a region with little alternative employment and a long history of union militancy.

See Feature

Brussels warns audio-visual sector

By Gillian Tett in Brussels and Raymond Snoddy in London

The European film and television industry is in a state of financial crisis and will decline steadily against its US competitors unless it is radically overhauled, the European Commission has warned.

The diagnosis, made in a discussion paper on the audio-visual industry adopted by the commission yesterday, calls on governments to provide more effective funding and co-operation to operate on a trans-national basis. The document appears to reflect the divisions which remain among member states over Europe's audio-visual policy in the aftermath of the General Agreement on Tariffs and Trade negotiations and the commission's own uncertainty about how far it can endorse protectionism in the European industry.

Instead of proposing a single strategy for investment, the paper poses questions about the future of regulation, financial stimulus, and national convergence in the industry.

This rhetorical formula is intended to "generate debate among the industry's practitioners and member states", according to Mr Joao de Deus Pinheiro, EU cultural commissioner.

The vagueness of the paper is likely to disappoint some producers hoping for more urgent and concrete proposals. Commission green papers, however, deliberately avoid being proscriptive and do not contain precise proposals.

Both Mr Pinheiro, and Mr Jacques Delors, the commission president, are expected to put their political weight behind the document at a press conference today . Both have been keen to stress the political significance of the report, pitched as a cornerstone of the commission's manifesto for developing Europe's "information highways".

A group of leading European television and film producers and directors, including Mr David Puttnam, were among those who submitted much more precise proposals to the Commission.

They argued for a levy on every sector of the audio-visual industry to help fund more commercially-orientated production and "soft loans" to help create a number of competing European-wide distribution organisations each capitalised at up to Ecu1bn (£780m).

Nearly 80 per cent of the films shown in Europe are now of US origin, the paper notes, with US film distributors enjoying a huge advantage over their fragmented and under-funded European counterparts, currently split between 1,000 different operators.

The Commission is due to submit the paper to the European parliament for discussion in the autumn, before drawing up proposals for possible new legislation at the end of the year.

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EUROPEAN NEWS DIGEST

Yeltsin seeks political peace

President Boris Yeltsin sought to avert a breakdown in the fragile calm in Russian politics by asking all parties to sign up to a "civic accord", published yesterday. However, opposition figures have rejected the president's attempt to get agreement on what he sees as the basic principles of political life.

The draft proposes that signatories make no proposals to change the constitution; refrain from seeking pre-term elections at the federal level; desist from stirring passions connected with the failed coups of August 1991 and October 1993, the ringleaders of which have all been freed under an amnesty. Mr Yeltsin is proposing that party and regional leaders, union and enterprise heads, ministers and the president himself sign the document.

Mr Gennady Zyuganov, the Communist leader, has already dismissed the draft as unacceptable because of the moratorium on constitutional change.

As the draft was published, Mr Yeltsin again cancelled meetings yesterday and on Tuesday, raising fears of a recurrence of the ill health which has kept him from his office five weeks already this year. However, his press spokesman maintained that his health was good.

● Russia will keep around 30 military bases in former Soviet republics – including one in the Baltic republic of Latvia. *John Lloyd, Moscow*

Lubbers returns to avert crisis

The Dutch prime minister, Mr Ruud Lubbers, cut short an official visit to Indonesia and returned home last night in an effort to defuse differences between his ruling Christian Democrat (CDA) party and the Labour coalition partners, with a general election only one month away. The coalition today faces a parliamentary debate over its handling of a police corruption scandal.

The opposition may table a motion of no confidence in the run-up to the May polls. Yesterday, an independent NOVA/ANP opinion poll suggested that support for the CDA had plunged by a third since the 1989 elections to 19.5 per cent, putting it in last place among the four top parties now led by Labour. The main beneficiaries of voter dissatisfaction have been D66, a centrist party, the right-wing Liberals, and a number of smaller groups including those of the far-right. *David Brown, Amsterdam*

Bundesbank eases lending costs

The Bundesbank yesterday continued its gradual easing of lending costs by shaving a further three basis points off the securities repurchase rate at which it supplies financial markets with short-term funds. The move down to 5.73 per cent was seen as a further signal that reductions in the internationally important 5.25 per cent discount lending rate could still be expected. But analysts were divided on the timing. In the recent past the German central bank has developed a knack for making cuts when markets least expect them. *Christopher Parkes, Frankfurt*

Bonn's asylum curbs succeed

The number of foreigners seeking asylum in Germany has fallen dramatically since Bonn imposed tough limits on refugees last summer, the Interior Ministry said. A total of 35,822 refugees applied for asylum in the first three months of this year compared with 118,081 in the first quarter last year, down 69.7 per cent. The ministry said 12,181 refugees – most of them from eastern Europe – applied for asylum in March this year, compared with 10,487 in February and 13,154 in January. *Reuter, Bonn*

Sweden to reduce borrowing

Sweden's borrowing requirement for the 1993-94 budget year is likely to be SKr220bn (£19bn), well below the government's forecast of SKr270bn published in January, Mr Staffan Crona, director general of Sweden's National Debt Office, said yesterday. The National Debt Office also forecasts that the borrowing requirement in 1994-95 will be SKr210bn, down from an estimate of SKr220bn in January. Mr Crona told journalists in London that the lower 1993-94 forecast reflected the impact of Sweden's economic recovery on the budget, likely privatisation receipts, including the planned sale of the state's holding in Pharmacia, and the end of the financial crisis in Sweden. *Antonia Sharpe, London*

Romanians follow IMF's line

Romania's government endorsed a 1994 draft austerity budget based on recommendations made by the International Monetary Fund. Revenues are set at 9,660bn lei (£4bn) and the deficit at 1,878.8bn lei, or 3.5 per cent of gross domestic product. Romania is seeking around $700m in new IMF credits to prop up its economy. The spending was meant to boost investment, including housing construction, and to encourage exports, the government said. It would also increase the weight of indirect taxes in the structure of revenues. *Reuter, Bucharest*

France looking for jobs boost

Direct foreign investment in France last year will create or save some 15,500 jobs, Mr Daniel Hoeffel, the French local government minister, said yesterday. European companies, led by the Germans and the Belgians, accounted for 60 per cent of jobs created or sustained by foreign investment, with American companies, long the prime investors in France, dropping to 15 per cent, the same share as Asian companies. A sharp drop in new jobs created by foreign investment from 1992 to 1993 was offset by foreign investors taking over declining companies, and maintaining employment. *David Buchan, Paris*

French right set for Euro-row

The decision by the UDF, one of parties in France's ruling coalition, to choose a strongly pro-European candidate to lead the government list for this June's European parliament elections has created problems within the coalition. The Gaullist RPR party had favoured a less pro-European candidate. While the RPR is likely to endorse the nomination of Toulouse mayor Dominique Baudis, the choice might drive some Gaullist voters towards a dissident conservative list. *David Buchan*

ECONOMIC WATCH

Greek inflation falls to 10.2%

Greek consumer price inflation fell to 10.2 per cent year-on-year in March from 11 per cent in February. In March the consumer price index rose by 2.9 per cent against February because of sharp rises in clothing, footwear, consumer durables and household goods after the winter sales.

■ East German industrial orders rose 14.8 per cent in December and January against the same period a year ago, suggesting that recovery in the five eastern Länder is gathering pace. Orders for investment goods rose 10.1 per cent in the period, while consumer goods orders rose 24.1 per cent. Foreign orders fell 20.6 per cent, mainly because of a drop in Soviet orders. *Michael Lindemann, Bonn.*

■ Belgium's budget deficit in the first quarter was BFr274.2bn (£5.3bn), up from BFr327.9bn a year earlier. The deficit narrowed by BFr52bn between the first quarter of 1994 and 1993.

NEWS: THE AMERICAS

Ron Carey of the Teamsters: 'no choice but to strike' Reuter

Teamsters in first big strike for 15 years

By George Graham in Washington

Picket lines went up across the US yesterday as the once powerful Teamsters union launched its first big strike in 15 years against 22 road haulage companies, but little immediate effect was felt on deliveries.

Mr Ron Carey, Teamsters president, called about 75,000 members out on strike after talks broke down over the haulage companies' plan to use more part-time workers and to send more goods by rail.

"We have no other choice but to strike," Mr Carey said.

The companies targeted by the Teamsters' strike, which belong to a negotiating consortium called Trucking Management Inc, handle about half of all consolidated road freight in the US – single truck loads made up by the haulage companies of consignments that on their own make up less than a full load.

They include companies such as Consolidated Freightways, ABF Freight Systems, and Roadway Express, which have faced increasing competition in segments of their market from parcel delivery companies such as UPS.

The strike is most likely to affect deliveries of manufacturing components, small finished goods and non-perishable groceries, but is not expected to constrict food supplies, since most supermarket chains have their own truck fleets.

The trucking companies currently ship between 5 and 15 per cent of their freight by rail, but had proposed a new contract allowing up to 35 per cent to move by rail. They also wanted a quarter of the work in their terminals to be done by part time workers, giving them more flexibility to deal with peaks in demand.

For the Teamsters, the strike is a critical test. Mr Carey was elected president in 1991 as the leader of an effort to clean up the scandal-ridden union, which had been operating under a federal court order as part of a settlement of allegations stemming from its close links with organised crime. Three of Mr Carey's six immediate predecessors went to prison, and two others were the objects of criminal investigations when they left office.

His leadership has been called into question, however, and the union's finances, especially its strike fund, are in poor shape. Members last month voted against an increase in union dues but the Teamsters have secured a $50m loan guarantee from the AFL-CIO, the US labour union federation.

Mexico defends currency

By Damian Fraser in Mexico City

Mexican interest rates rose sharply yesterday, as the government sought to stem an outflow of foreign capital which is threatening the stability of the exchange rate.

Short-term rates on 28-day paper rose to 14.31 per cent, an increase of 2.7 percentage points on the day, and up from 8.81 per cent in late February. One year rates also rose to 13.66 per cent, a level not seen since last August.

The stockmarket reacted badly to the interest rate rise, falling 1.4 per cent by mid-session, to 22,203. Mexico's economy was formally in recession in the second half of last year, and the government had been hoping for a rapid recovery before August's presidential elections.

But the peso strengthened slightly, to 3.35 to the dollar yesterday morning, although it remained close to its permitted limit, and about 8 per cent weaker than at the beginning of the year.

A devaluation of the peso outside the central bank's exchange rate band would come as a serious political blow to the government.

Turmoil laid at new government's door, writes Bernard Simon

Canada Liberals dismay markets

Canada's Liberal government has sought to soothe the financial markets with promises of economic rectitude since it came to office last November, but its response to their recent turbulence has raised doubts about its commitment. Market sentiment has taken a heavy toll in recent weeks.

The Bank of Canada set its trend-setting Bank rate, or discount rate, at 6.21 per cent this week, sharply above the low of 3.87 per cent in early February. Commercial banks have raised their prime lending rates twice in the past three weeks to 6.75 per cent and another rise is expected soon.

Yields on long-term government bonds reached 8.6 per cent this week, from 7.1 per cent in early February and mortgage rates have jumped.

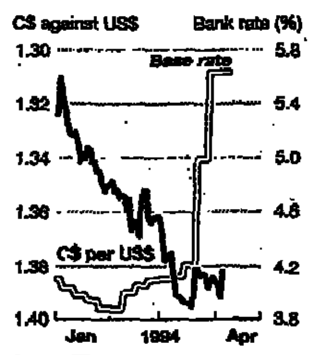
But the interest rate rises have been too little and too late to prevent a run on the Canadian dollar which has sunk to its lowest level in eight years. The currency has slid by almost four US cents in two months, touching a low of 71.62 on Tuesday. The slide began with the US Federal Reserve Board's landmark tightening of monetary policy in early February, which resulted in greater changes north of the border than in the US itself.

The gap between US and Canadian 10-year bond yields has widened over the past two months from about 7/10s of a percentage point to 1.25 points. The spread on short-term securities has opened up even further. This divergence does not appear justified by the relative performance of the two economies. Canada's inflation rate, at a year-on-year rate of 1.3 per cent in February, is well below the US. The business recovery has also been far less robust in Canada, where unemployment remains over 11 per cent.

Economists place much of the blame for the rattled markets on the Liberal finance minister, Mr Paul Martin, and on Mr Gordon Thiessen, whom the Liberals named as Bank of Canada governor last February to replace Mr John Crow. The stated aim of both men is to balance low inflation and fiscal restraint with steady growth and job creation.

"The balanced approach is a code word for getting nothing done," says Mr George Vasic, chief economist at securities firm Bunting Warburg.

Mr Thiessen has certainly displayed a less single-minded commitment than Mr Crow to attacking inflation. "Crow would have left no room for doubt," said one unhappy finance ministry official.



Source: FT Graphite

Mr Thiessen on Tuesday did reaffirm an inflation target of between 1 and 3 per cent for the next three years – in his first keynote speech. And Mr Martin raised half a cheer in the markets with his first budget last February, in which he promised to bring down the federal deficit from C$45.7bn in the year to March 31, 1994, to C$39.7bn in fiscal 1995 and C$32.7bn in 1996.

Closer examination of the budget and subsequent statements by Mr Martin and Mr Jean Chrétien, the prime minister, suggest the Liberals are reluctant to achieve targets through unpopular spending cuts.

Chrétien: avoiding cuts

The previous government's budget projections were blown off course by stagnant tax revenues rather than unexpectedly high outlays. Mr Martin and his advisers are banking heavily on an accelerating recovery to push up revenues.

"We are going to hit our target," Mr Martin said on Tuesday. "There is sufficient room to manoeuvre in our budget in terms of the projections that we have made."

Some economists question this conclusion. The budget assumed an average long-term government bond yield of 6.4 per cent this year, which is far below yesterday's level of 8.8 per cent. With debt-service payments accounting for about a third of all government outlays, any jump in interest rates can quickly undermine budget projections.

Mr Thiessen and Mr Martin do appear to have calmed the markets for the time being. In the past two days, bond prices and the Canadian dollar have recovered part of their losses.

But the turbulence of the past few weeks has revealed the fragility of investor confidence in Canada and several more potentially unsettling events are on the horizon.

Quebec separatists are confident of a strong showing in elections later this year. If they win, they have promised to hold a referendum on independence for the francophone province within 12 months.

The ten provinces will present their 1994-1995 budgets over the next six weeks. Their combined borrowings now exceed those of the federal government.

"You've got to be betting on a weak currency," Mr Michael Manford, chief economist at ScotiaMcLeod said yesterday. Scotia has lowered its 1994 forecast of the Canadian dollar to between 71.4 and 73.5 US cents.

NEWS IN BRIEF

Maine relents over drink boxes

The state of Maine has been forced to back down in its fight against drink boxes, the rectangular laminated packages made by companies such as Tetra-Pak and Combibloc, George Graham reports from Washington.

Governor John McKernan this week signed a bill repealing Maine's three and a half year ban on the drink box, which is more difficult to recycle than aluminium cans or glass bottles and which the state feared would fill up all scarce landfills. But the boxes have proved a hit with consumers, who buy around 4bn of them in the US each year.

Maine's state legislature decided in 1990 to ban the boxes, but last month, after years of industry pressure, it reversed itself. Packaging companies have agreed, in exchange, to help municipalities set up recycling programmes.

Honduras murder plot

The Honduran army said on Tuesday it was investigating a foiled plot to assassinate President Carlos Roberto Reina and kidnap a businessman, Reuter reports from Tegucigalpa. Lt Col Napoleon Santos, an army spokesman, said one of four men implicated in the conspiracy had said a Honduran citizen with links to the drug trade had offered the group $400,000 to kill the president and more than $800,000 to kidnap the businessman.

Chilean police chief row

President Eduardo Frei of Chile yesterday threatened to convoke the National Security Council to force the resignation of his chief of police, General Rodolfo Stange, writes David Pilling from Santiago. Under the 1980 constitution, drawn up by the military, the president cannot dismiss commanders-in-chief of the armed forces, of which the police chief is one, although President Frei has made it clear he believes Gen Stange's position to be untenable.

The chamber of deputies added weight to President Frei's cause by passing an emergency motion describing as "regrettable" Gen Stange's refusal to resign after being implicated in an alleged cover-up of the 1985 murder of three communists.

Ecuador debt payment

Ecuador yesterday announced it would resume interest payment on its $7bn (£4.7bn) foreign commercial debt. It stopped servicing in September, 1992, Raymond Colitt writes from Quito. Though the initial payment of $5m towards interest in arrears is only symbolic, Finance Minister Cesar Robalino said it would allow negotiations with the commercial banks to move ahead.

Kenya central bank defrauded of $210m

By Leslie Crawford in Nairobi

Kenya's monetary authorities yesterday revealed that the central bank was defrauded of $210m (£141m) last year – an amount equivalent to 6 per cent of the country's gross domestic product – in what probably counts as the biggest embezzlement of public funds in Kenya's history.

As a result, the central bank recorded a net loss of 4.5bn shillings (£47m) in the year to June 1993, according to the bank's auditors. The losses were incurred in foreign exchange trading and on unsecured advances to three local banks which have ceased operations.

Mr Micah Cheserem, who became the central bank governor in July, after the losses were detected, says his main priority is to recover KSh6bn owed to the central bank. Mr Amos Wako, the attorney-general, has meanwhile launched an investigation into the financial activities of the local Exchange Bank, which is in liquidation.

Mr Cheserem says the central bank entered into a forward foreign exchange contract with Exchange Bank last April in which the central bank advanced KSh9.9bn against a future payment of $210m. Subsequently, it is claimed, central bank officials and Exchange Bank conspired to erase the latter's liabilities by setting up bogus bank accounts in the name of the central bank with two international banks in London.

The alleged fraud was discovered when the International Monetary Fund questioned the apparent $210m central bank funds held abroad. "The accounts were discovered to be false, in an apparent attempt to conceal the fact that Exchange Bank had defaulted on the contract," Mr Cheserem said in an interview yesterday.

Mr Cheserem is surprised that such a large contract was approved at a time when Exchange Bank was already under investigation for the alleged falsification of export documents for a related company.

The central bank ordered Exchange Bank into liquidation last year after an independent audit of its activities. The audit has never been made public, compounding the widespread belief that senior politicians in the ruling Kanu party benefited from Exchange Bank's activities.

Former central bank employees are being questioned in connection with the affair.

UN's Somalia military role attacked

Somali warlord Mohamed Farah Aideed (left) addresses 700 delegates at a Pan-African Congress in Kampala, Uganda, yesterday. Aideed demanded compensation from the UN for the 13,000 Somalis he claims were killed by peacekeepers in Somalia last year Reuter

By James Harding

United Nations troops had been "a little more trigger-happy than they should have been" during Operation Restore Hope, the peace-enforcing operation in Somalia, a UN envoy to the country said yesterday.

Mr Michael Harper, director of the United Nations Association UK, said on his return from a Unicef-funded mission to Somalia that the UN had "come unstuck at the military level". The humanitarian effort had been largely successful, but the military operation had failed to achieve its aim of disarming the Somali warlords, and had alienated the Somali people.

He criticised the role of the US soldiers in Somalia, saying that "for the past six months, the Americans have been looking after the Americans," seeking to minimise casualties. He would recommend to Mr Boutros Boutros Ghali, UN secretary-general, that there "should never be a UN military presence and a unilateral non-UN international military presence, be it the US or anyone else, working simultaneously."

His criticisms indicate the degree to which the operation has damped UN peace-enforcing ambitions. He acknowledged Amnesty International's allegations of human rights abuses by UN personnel, saying he suspected they were "basically founded".

He stressed the absence of military wisdom in New York combined with disorganisation in Somalia. "The individual national units...tended to operate in their own way and decide which bits of the (UN) mandate they would or would not implement."

Mr Harper's attack came amid allegations of a cover-up of a report on the massacre in June last year of 23 Pakistani soldiers serving as part of the UN forces. The UN-commissioned inquiry has never been released.

Mandela rules out election postponement

By Patti Waldmeir and Michael Holman in Johannesburg

Mr Nelson Mandela, African National Congress president, yesterday ruled out any postponement of South Africa's forthcoming all-race elections, despite a report from the country's Independent Electoral Commission saying it would be impossible to hold elections in violent Natal province.

"Let me tell you there will be no postponement of elections ...either in the province of Natal or in any of the provinces," Mr Mandela told a youth conference in Durban. "We will not postpone our freedom...We will not postpone our plans to build a better life for all South Africans."

Some 700 additional troops were last night on their way to bolster the 2,000 soldiers already enforcing the state of emergency in Natal, where over 100 people have died in six days.

A government spokesman said last night the Natal crisis required a political solution, which will be the focus of tomorrow's peace summit between Mr Mandela, President F W de Klerk, Inkatha leader Chief Mangosuthu Buthelezi and Zulu King Goodwill Zwelethini, who are to meet at an undisclosed venue.

The ANC hopes at that meeting to assuage the fears of the Zulu King about the future of his monarchy by promising to protect his salary and status under a new constitution. ANC officials believe they can offer the king a deal which will persuade him to break with his ally, Chief Buthelezi, and accept the constitution, seriously undermining Inkatha's election boycott.

South Africa throbs to an electoral beat

Rap groups, game shows, TV soaps are all being used to educate voters, reports Patti Waldmeir

SOUTH AFRICAN ELECTIONS April 26-28

Confused but elated, members of the Soweto Mothers' Union shove for a place at the mock polling booth outside Johannesburg's Anglican cathedral. In three weeks, the vast majority of them will enter a real polling station to vote in a general election for the first time, and they want to be ready.

Myopic grandmothers crane their necks to glimpse the mock ballot papers being distributed by Ms Lerato Mabitsela of the Matla Voter Education Trust, and strain to hear her patient explanation of how to avoid spoiling the paper.

Over and over again, she explains that no, they must not sign the paper, and no, they must not print their address in the box next to the party of their choice. One old woman worries that her mark on the paper is not a perfect X. Ms Lerato reassures her it will do nicely.

Over the past few weeks, millions of first-time electors throughout South Africa have received some kind of voter education to prepare them for the April 26-28 poll. Some have attended mock elections held by community and church groups, political parties and businesses. Millions more have been reached by TV and radio, where voter education has taken surprising forms.

These have included a prime-time voter education game show, complete with a black master of ceremonies dispensing deep freezes and electric frying pans to those who correctly answer questions such as: "Where do you go to vote?" and "If you spoil your paper, do you get another chance?"

The same channel carries an election soap opera, featuring a black comedian as the main character in a drama revolving around issues such as democracy and political intimidation.

A local rap group, Prophets of the City, has taken their own brand of voter education to black schools, where they rap out the message "You gotta vote, you gotta vote". The children are expected to pass the message on to their parents.

Travelling concerts and roadshows, some of them funded by an election initiative launched recently by South African business, take the message deep into rural communities. Music cassettes combining a message of tolerance and goodwill with popular music have been distributed to the tens of thousands of minibus taxis which provide the main form of transport for black South Africans.

Because there is no central co-ordination of the voter education effort, nobody knows how many people have been reached or how much money has been spent. From overseas, the European Union has contributed R20m (£2.7m) and the South Africa Free Election Fund, a US business initiative, at least $5m (£3.3m). Foreign voter educators say they believe it is one of the most ambitious such exercises conducted anywhere.

The task is daunting: some 70 per cent of South Africa's 22.7m eligible voters have probably never voted before (some may have voted in black local elections, but turnout at these polls was always minuscule).

South Africa's voting system is relatively simple: the ballot shows each party's name, logo and the picture of its leader; voters need mark only one box (representatives are then chosen automatically from each party's electoral list). But matters have been complicated by the recent addition of a second ballot for regional parliaments.

Most voters have no idea of the purpose of the second paper: some said they would not mark it, as they had been told it was illegal to vote twice. But by far the greatest problem has been political violence, especially in Natal Province where the Inkatha Freedom party is boycotting the election. Voter educators from the rival ANC have been targeted by Inkatha, with several murdered.

Natal voter education groups say they have been unable to operate in Inkatha areas since mid-February. They believe the recent imposition of a state of emergency will only spark further resentment in Inkatha areas.

But voter educators complain that the ANC, too, is inhibiting their work in Natal. "We're having problems in ANC areas as well. We're being told that if we're not teaching people to vote ANC, we're not to be doing voter education," says Ms Carole Baekey of the Community Law Centre in Durban. But Inkatha's name will not appear on the final ballot.

No amount of voter education can solve South Africa's real problems, which remain political.

On April 26-28, 22.7m South African voters will be eligible to vote at any one of 9,000 polling stations. Some of them will be mobile stations, to be moved in and out of areas where violence could interfere. There are no constituencies. Representatives are chosen from national party lists, so voters can attend any polling station.

Some 80m ballot papers are being printed by De La Rue, the UK security printer, and can be placed in 126,000 ballot boxes. Some 193,706 voting officers will staff the polling stations; 90,838 enumerators will count votes.

The Independent Electoral Commission plans to deploy 10,000 monitors by mid-April; the UN says it expects 5,000 foreign observers. The commission (11 eminent South Africans and five international commissioners under the chairmanship of Judge Johann Kriegler) will conduct the poll and decide whether it is free and fair. There is no appeal against its decision.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout: other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	99.4	88.4
1987	105.6	100.7	103.8	96.7	80.2
1988	109.9	103.2	106.9	99.1	74.2
1989	115.2	108.5	110.0	101.1	77.3
1990	121.5	113.8	113.8	104.3	76.0
1991	126.6	116.3	117.3	107.8	76.8
1992	130.4	117.7	120.2	108.1	76.6
1993	134.3	119.2	123.4	105.4	78.4
1st qtr.1993	3.2	2.0	2.8	−1.9	79.4
2nd qtr.1993	3.2	2.0	2.5	−2.3	77.9
3rd qtr.1993	2.8	0.7	2.5	−2.7	78.1
4th qtr.1993	2.7	0.3	3.0	−2.9	78.3
March 1993	3.1	2.0	2.5	−2.0	79.1
April	3.2	2.5	2.5	−2.1	77.8
May	3.2	2.1	2.5	−2.1	77.8
June	3.0	1.3	2.5	−2.8	78.0
July	2.8	1.3	2.5	−2.5	79.1
August	2.8	0.5	2.5	−2.7	77.9
September	2.7	0.4	2.5	−2.8	77.4
October	2.8	0.2	2.5	−2.9	77.6
November	2.7	0.3	3.3	−2.2	78.5
December	2.8	0.2	3.3	−3.7	78.8
January 1994	2.5	0.2	2.5	−2.0	79.2
February	2.5	0.2			78.6
March 1993					78.3

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.8	95.3	101.4	103.4	117.4
1987	101.2	92.5	103.1	100.6	120.8
1988	102.2	92.3	107.8	96.2	127.1
1989	104.9	94.2	114.0	96.1	118.5
1990	108.2	95.7	120.1	98.3	105.7
1991	111.8	96.8	124.2	101.8	111.8
1992	113.9	95.8	125.6	111.1	114.0
1993	115.3	94.3	125.8		130.1
1st qtr.1993	1.2	−1.1	−0.5	7.0	121.0
2nd qtr.1993	1.0	−1.4	0.7	5.3	129.7
3rd qtr.1993	1.6	−1.8	0.4	4.7	136.4
4th qtr.1993	1.2	−2.1	0.0		133.2
March 1993	1.2	−1.2	1.0	3.6	124.5
April	0.9	−1.3	2.0	5.4	127.1
May	1.1	−1.5	2.3	6.1	129.0
June	1.0	−1.5	−0.9	4.5	133.1
July	1.6	−1.7	−1.2	5.4	134.4
August	2.0	−1.8	2.3	3.4	139.4
September	1.3	−2.0	1.5	5.4	135.4
October	1.2	−2.1	0.6	6.9	134.2
November	0.9	−2.1	1.7	4.3	134.0
December	1.3	−2.2	−1.1		131.4
January 1994	1.4	−2.1	4.6		129.9
February	1.3				135.7
March 1993					136.4

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.8	109.7
1987	100.1	95.1	108.0	107.1	114.6
1988	101.4	96.2	113.0	106.9	113.3
1989	104.2	99.3	117.3	106.0	110.1
1990	107.0	101.0	123.8	110.3	114.3
1991	110.7	103.4	131.8	115.0	111.8
1992	115.1	104.8	138.6	121.5	114.9
1993	119.8	104.8			115.4
1st qtr.1993	4.3	0.5	n.a.	9.7	116.9
2nd qtr.1993	4.2	−0.2	n.a.	5.4	115.2
3rd qtr.1993	4.2	−0.3	n.a.	1.6	114.7
4th qtr.1993	3.7	−0.2	n.a.		114.7
March 1993	4.2	0.2		6.2	116.6
April	4.3	0.1		7.4	116.5
May	4.2	−0.2		5.6	115.2
June	4.2	−0.4		3.3	113.8
July	4.3	−0.2		3.0	113.1
August	4.2	−0.2		0.4	114.6
September	4.0	−0.3		2.0	116.7
October	3.9	−0.2		−0.2	116.3
November	3.6	−0.2		−3.4	114.4
December	3.7	−0.1		−3.6	113.5
January 1994	3.5	0.0			111.7
February	3.4	0.2			111.0
March 1993	3.2				112.2

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	104.4
1987	105.9	97.8	107.8	103.0	106.6
1988	108.8	102.8	111.1	103.8	103.7
1989	112.6	108.4	115.4	105.3	100.6
1990	116.5	107.1	120.6	108.5	105.5
1991	120.2	105.8	125.8	113.8	103.5
1992	123.1	104.0	130.3	115.8	107.5
1993	125.6	101.1	133.7		109.2
1st qtr.1993	2.1	−2.3	n.a.	4.4	110.9
2nd qtr.1993	2.0	−3.4	n.a.		110.8
3rd qtr.1993	2.2	−3.4	n.a.		107.2
4th qtr.1993	2.1	−2.2	n.a.		108.1
1993 March	2.2	n.a.	3.4	n.a.	111.2
April	2.1	n.a.	–	n.a.	111.6
May	2.0	n.a.	–	n.a.	111.0
June	1.9	n.a.	2.6	n.a.	109.9
July	2.1	n.a.	–	n.a.	107.2
August	2.2	n.a.	–	n.a.	105.9
September	2.3	n.a.	2.3	n.a.	106.3
October	2.2	n.a.	–	n.a.	106.0
November	2.2	n.a.	–	n.a.	107.5
December	2.1	n.a.	2.2	n.a.	106.9
1994 January	1.9	n.a.	–	n.a.	107.6
February	1.8	n.a.	–	n.a.	107.3
March					107.9

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	103.3
1987	111.0	103.2	111.6	105.5	105.1
1988	116.5	106.8	118.4	109.7	102.8
1989	124.2	113.1	125.6	112.3	105.5
1990	131.8	117.8	134.7	118.9	109.1
1991	140.3	121.7	147.9	131.3	107.7
1992	147.7	124.0	155.9	136.8	104.7
1993	153.9	128.7			89.0
1st qtr.1993	4.3	3.1	2.8	4.5	88.8
2nd qtr.1993	4.1	3.9	3.1	2.6	90.4
3rd qtr.1993	4.3	4.3	4.1		89.5
4th qtr.1993	4.1	3.9			87.1
1993 March	4.2	3.4	2.7	n.a.	86.8
April	4.2	3.7	2.8	n.a.	87.7
May	4.0	3.9	2.6	n.a.	91.6
June	4.2	4.1	4.1	n.a.	92.1
July	4.4	4.2	4.1	n.a.	90.3
August	4.4	4.4	4.1	n.a.	89.4
September	4.2	4.3	4.2	n.a.	89.0
October	4.3	4.1	3.9	n.a.	88.3
November	4.2	3.9	3.9	n.a.	87.0
December	4.0	3.7	3.6	n.a.	86.2
1994 January	4.2			n.a.	86.4
February	4.2			n.a.	86.8
March	4.2			n.a.	86.7

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	104.5	95.6
1987	107.7	104.9	116.3	105.9	96.7
1988	113.0	108.7	126.2	108.9	104.3
1989	121.6	113.9	137.2	113.6	102.5
1990	133.3	121.0	150.1	123.2	104.9
1991	141.2	127.5	162.4	131.7	108.2
1992	146.4	131.5	173.1	133.8	105.6
1993	148.7	136.7	180.9	132.3	97.0
1st qtr.1993	1.8	3.6	4.7	−2.7	94.3
2nd qtr.1993	1.3	4.0	5.0	−1.8	96.9
3rd qtr.1993	1.6	4.3	4.4	−0.6	98.3
4th qtr.1993	1.6	3.9	4.0	0.6	98.1
1993 March	1.9	3.7	4.2	−2.6	94.1
April	1.3	4.0	5.3	−1.1	97.1
May	1.3	4.0	4.8	−3.9	97.1
June	1.2	4.0	4.9	−0.1	96.4
July	1.4	4.2	5.0	−0.7	98.5
August	1.7	4.3	3.6	−0.7	98.3
September	1.8	4.3	4.5	0.6	99.1
October	1.4	4.0	3.8	0.6	97.5
November	1.4	3.6	4.0	1.0	98.0
December	1.9	4.0	4.0	1.0	98.8
1994 January	2.5	3.7	4.8	1.7	100.4
February	2.4	3.3			99.0
March					98.6

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 15 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

China under pressure over HK newsman

By Simon Holberton in Hong Kong

China yesterday came under pressure from its own supporters in Hong Kong to explain why it had sentenced a journalist working for one of the colony's leading daily newspapers to 12 years in jail.

Earlier this week it emerged that Mr Xi Yang, a Beijing correspondent for the Ming Pao daily, had been found guilty of "stealing and spying on state secrets".

The sentence came after a trial held in camera, at which Mr Xi was not represented by a lawyer. An employee at the People's Bank of China, the central bank, was sentenced to 15 years' prison for assisting Mr Xi in his work. The sentence meted out to Mr Xi was seen in Hong Kong as disproportionate to any he offence he might have committed.

Some observers said it was a classic example of the Chinese adage "to kill a chicken to scare a monkey", in other words, to warn Hong Kong's news media of the limits to inquiry by severely punishing one of their number.

Last summer Mr Xi wrote a series of articles about China's attempt to cool its economy.

He reported that the People's Bank had sold gold to buy yuan to stabilise the currency; also, he forecast accurately a rise in short-term interest rates.

Leading pro-Beijing figures such as Mr Tsang Yok Sing, leader of a China-funded political party in the colony, and Mr Xu Ximing, publisher of a pro-Beijing magazine, called on China to prove that Mr Xi was engaged in anything other than news-gathering.

Mr Xu said the 12-year sentence was too heavy. Mr Xi had never used the information he got "in any other way involving espionage, apart from printing it in the newspaper."

Mr Xi has been given leave to appeal against the verdict of Beijing's Intermediate Court.

Mr Kevin Lau, vice-president of Hong Kong's journalists' association, said the verdict had scared Hong Kong-based journalists who have to travel to China.

There were no objective criteria for what constituted a secret in China, he added.

He said that after Hong Kong's return to China in 1997, it will have to enact laws to protect state secrets. China's law was "vague and subject to arbitrary interpretation".

Paris tries to melt Beijing ice

Balladur wants warmer relations, say Tony Walker and John Ridding

Mr Edouard Balladur, France's prime minister, could have picked a better week to visit Beijing for talks aimed at celebrating a warming of Sino-French relations after the iciness of the past year or so.

China's announcement on Monday that it was investigating its most prominent dissident for new, and as yet unspecified, crimes has cast a considerable shadow over the visit.

Mr Balladur, due to arrive in Beijing today, can hardly avoid broaching with his Chinese hosts the subject of Mr Wei Jingsheng's incarceration. At the very least, the continued detention of Mr Wei would preclude any possibility of a visit to France this year by China's Premier Li Peng.

French officials have been contrasting the relatively low-key Balladur mission to China with that of Germany's Chancellor Helmut Kohl last November. Mr Kohl arrived in Beijing with a clutch of German industrialists who then proceeded to sign deals worth about \$2bn (£1.35bn), including a Siemens agreement to build the Guanghzou subway.

Mr Balladur, on the other hand, will be travelling with a relatively small delegation including Mr Alain Juppé, his foreign minister, and Mr Gérard Longuet, trade and industry minister. But this is not to say the Balladur mission is without commercial importance.

France is anxious to lay the groundwork for a revival of business relations chilled following the 1992 decision of the previous French government to allow the sale of about \$2.6bn worth of armaments to Taiwan, including 60 Mirage 2000-5 fighters and 1,500 surface-to-air missiles.

A furious Beijing ordered closure of France's consulate in Guanghzou, and discriminated against French companies bidding for Chinese contracts.

Mr Balladur's ministers have made little attempt to disguise the impulses that led to the mid-January Sino-French declaration which placed a moratorium on further arms sales to Taiwan and opened the way for restoration of what were described as "friendly relations".

Mr Juppé, in an interview last November with the French newspaper Les Echos, asked with Gallic pragmatism: "Shall we place our bets on a country with 20m people or one with 1.3bn people? One that is the world's third largest economy? The choice is clear. France wants to re-establish trusting relations with China."

France's disquiet over its diminishing stake in business with China is borne out by trade figures which showed its share of China's imports fell to just 1.6 per cent in 1993 compared with 3 per cent in 1980.

Mr Longuet estimates that contracts worth more than FFr3bn (£354m) were lost during the 1992-94 chill. The Patronat, the French employers' federation, puts the tally at almost double official estimates.

French business will be hoping that the Balladur mission will at least improve access in what is proving a highly competitive market. France's powerful energy, utilities and communications groups hope to derive early benefits from the Sino-French rapprochement.

> 'We have been at a disadvantage compared with other western groups' – French industrialist

"It is clear that we have been at a disadvantage compared with other western groups," said an executive of a French engineering company. "Now we have the opportunity to compete on an equal footing."

Electricité de France and Framatome, suppliers of technology for China's Daya Bay nuclear complex, as well as Alsthom, the engineering group, are all jostling with international competitors to supply China's energy needs.

Alcatel is similarly enthusiastic about Beijing's plans to raise almost tenfold the number of its telephone lines over the next five years. Aérospatiale, the aircraft group, is also seeking to break into China's growing aerospace market.

But French officials in Beijing say France will make it clear to China that the soft loans used in the past to sweeten commercial deals will not be made available quite so readily in the future.

Concessional loans from Paris to China total about FFr35bn, France's biggest exposure abroad. Officials say France does not intend to use its facilities to engage in "cut-throat" attempts to secure business at the expense of its fellow-Europeans.

Mr Balladur's other mission will be to oil the political relationship with Beijing and improve the consultative process between fellow Security Council members.

"We became marginalised in relations with Beijing," said a French foreign ministry official, adding that "it is worrying when one considers the growing diplomatic and regional importance of China."

But French and Chinese wishes to make a fresh start in relations are certain to be bedevilled by the human rights issue, especially if Mr Wei continues to be held for questioning during the Balladur visit.

Mr Juppé told Le Figaro last week: "France has no intention of closing its eyes to the problems of human rights in China." France's overtures to Beijing have been based on pragmatism. The limits of that approach will be tested this week.

Mieno: "Japanese economy close to hitting bottom" Tony Andrews

Bank chief more confident on Japan economy

By William Dawkins in Tokyo

Mr Yasushi Mieno, governor of the Bank of Japan, yesterday slightly upgraded his view of the economic outlook, after a quarterly meeting with regional branch managers.

"The economy is brighter and close to hitting bottom," said Mr Mieno, a mildly less cautious choice of words than his pronouncement last week that the conditions for recovery were falling into place.

He said his view had "delicately" changed in the light of a three-day day meeting with 33 branch managers, ending yesterday.

Branch managers told Mr Mieno that corporate sentiment had improved and that executives were discussing the size, rather than the timing, of a recovery. Japanese companies had made steady progress in winding down surplus stocks and in restructuring. Exports were improving in response to a rise in overseas demand led by the US, said Mr Mieno. "Improvements in domestic activities are spreading," he added.

There was only a "slim" risk that these signs of economic improvement would evaporate, as did a phantom upturn this time last year, he maintained. However, he warned that the yen's continued strength, the impasse in trade talks with the US and staff reductions by Japanese companies might still harm the economic outlook.

UN envoy fails to win Afghan ceasefire

A United Nations envoy left the Afghan capital, Kabul, yesterday saying he had failed to win a commitment for a ceasefire from President Burhanuddin Rabbani and his rival, Prime Minister Gulbuddin Hekmatyar, Reuter reports from Kabul.

"I have not got a firm commitment from the conflicting sides for a lasting ceasefire," Mr Mahmud Mestiri, special envoy of Mr Boutros Boutros Ghali, UN secretary-general, said at the end of a five-day visit.

He planned to meet leaders of Afghanistan's provinces over the next two weeks to try to find a way of ending the fighting before returning to Kabul for final talks with the rival leaders.

Mr Mestiri had two rounds of talks with Mr Rabbani and met Mr Hekmatyar at the prime minister's headquarters south of Kabul to try to mediate an end to two years of factional warfare.

"We prefer a permanent ceasefire to a temporary one, not only in Kabul but in all of Afghanistan," Mr Rabbani declared after his talks with Mr Mestiri.

The two sides had agreed to a ceasefire during the envoy's visit, although clashes erupted in the Tagab Valley, about 40 miles north-east of Kabul.

"I asked the leaders, especially the fighting sides, to extend the ceasefire which has been holding during this visit," Mr Mestiri said.

"We think that Kabul must not return to the inhuman conditions of the past three months of war."

The International Committee of the Red Cross says 2,500 people have been killed, 17,000 wounded and 300,000 made homeless since the latest round of the war for supremacy in Kabul erupted on New Year's Day.

More than 11,000 people have been killed and a third of Kabul's 1.5m residents have fled the fighting since Mujahideen groups took power from the former communist government and formed an Islamic coalition in April 1992.

Mr Rabbani said he had asked the UN to continue its involvement in Afghanistan.

"I hope with the co-operation of the United Nations that a decision-making body could be established soon, made up of people's delegates from all over Afghanistan," he added.

Mr Hekmatyar has demanded Mr Rabbani's resignation as a prerequisite for peace.

Mr Rabbani refuses, saying his departure would open a dangerous power vacuum.

Manila 'drug police' claim

Ten per cent of metropolitan Manila's police force are protectors or members of drug syndicates, the Manila newspaper Today quoted Police Director Ricardo Sarmiento as saying yesterday, Reuter reports from Manila. It claimed he said some were involved with Asian drug rings, including Hong Kong's 14K Triad. All members of the country's police force were ordered to undergo drug tests, to fight the rising number said to be using drugs.

NEWS: WORLD TRADE

Gatt's successor to be given real clout

Frances Williams on the likely workings of the World Trade Organisation

The World Trade Organisation that succeeds the General Agreement on Tariffs and Trade next year will be a bigger beast but in most respects a similar animal to its predecessor.

If negotiations with the Swiss government go well, the WTO will be comfortably ensconced in Gatt's existing Egyptianate building by Lake Geneva.

The present staff will stay – though there will be some new faces. Transformation of Gatt from an interim, albeit long-standing, secretariat to a fully fledged international organisation represents a useful legal "tidying-up" of its anomalous position.

The WTO will continue to operate, as Gatt does, on the basis of consensus and mutual agreement between member governments. The differences, however, are crucial. The WTO will have stronger, clearer rules applying to virtually all areas of world trade, from agriculture to accountancy. Even more important, those rules will be enforced by a semi-judicial disputes procedure which will no longer allow countries to block findings against them.

All those wanting to join the WTO must accept the results of the Uruguay Round of trade liberalisation talks in their entirety. A general council of WTO members will have subsidiary bodies responsible for trade in goods, services and intellectual property.

But the organisation's top decision-taking forum will be a two-yearly ministerial meeting – an attempt to give the organisation more political clout in capitals and a higher profile internationally.

Mr Peter Sutherland, Gatt director-general, has made no secret of his desire to reclaim for the WTO the role assigned to the stillborn International Trade Organisation in global economic policy-making.

The ITO, negotiated in 1948, was intended to operate as an equal alongside the International Monetary Fund and the World Bank when these institutions were set up after the war. After the US Congress refused to ratify the ITO, the Gatt remained as a contractual arrangement between governments, serviced by the secretariat to the ITO interim committee.

Not everyone shares Mr Sutherland's lofty ambitions for the WTO. Some fear they will encourage UN-style waffle rather than action. "The great advantage of Gatt is that people go there to negotiate, not to talk," says a senior European trade official.

By common consent, however, the WTO's credibility as an effective fair-trade policeman will stand or fall on the success of its new dispute settlement system.

In a radical departure from previous practice, independent panel reports will be automatically adopted by the WTO unless there is a consensus to reject them. Complained-against countries may appeal to a permanent appellate body but its verdict will be binding.

If offenders then fail to comply with panel recommendations, trading partners will have the right to compensation or, in the last resort, to impose (commensurate) trade sanctions. Every stage of the procedure is subject to strict time limits.

The US, which has loudly voiced its frustrations with the present system, has high hopes of the new one. "The new system... will work and it will work fast," Mr Mickey Kantor, US trade representative, told Congress in January. He noted approvingly that there will also be the possibility of cross-retaliation – the raising of tariffs, say, for a breach of the intellectual property rules.

However, the new system will also substantially diminish the scope for unilateral US action, a key objective of the EU and developing countries in the Uruguay Round talks. WTO members are obliged to use multilateral disputes settlement wherever available. And since WTO rules will extend to services and intellectual property as well as goods, most disputes will fall within its jurisdiction.

Some trade officials have predicted a wave of test cases, especially in relation to the new accord on intellectual property rights – but Gatt is not expecting a big permanent increase in the present workload. About a dozen disputes are going through panel procedures.

Nevertheless, Gatt says it will need more lawyers, especially to service the appellate body, and there will have to be extra staff to cope with the WTO's work on services and intellectual property rights.

Though the final word on the WTO's expansion will rest with member governments, who will have to approve an increase in the present SFr94m (£45m) annual budget, Gatt expects to add 40-50 professionals to the 180 it currently employs within its 400-strong staff.

Gatt officials point out that the WTO will remain tiny by the standards of other international organisations. The World Bank, with a budget of SFr1.8bn, employs 3,700 professionals. The IMF has 1,300 professionals and a budget of SFr477m. Even the Paris-based OECD, which has no executive functions, employs 1,100 professionals with a budget of SFr350m.

"When you consider that the Uruguay Round agreement is going to generate up to \$270bn (£182bn) annually in extra world income in the goods area alone, the WTO represents a pretty good return on investment," says one top official, half-seriously.

Mr Peter Sutherland, director-general of the General Agreement on Tariffs and Trade, has called a meeting of trade envoys to discuss a dispute between the US and developing countries over trade and labour conditions, a spokesman said yesterday, report Reuter in Geneva and David Goodhart, Labour Editor, in London.

The spokesman said Mr Sutherland was in intense consultations on the problem, that has overshadowed a gathering of ministers from 121 countries in Marrakesh next week to sign new Gatt world trade accords.

He said Mr Sutherland would report to the ambassadors to Gatt on his consultations "and see if there were a possibility of some kind of accommodation".

The US, backed by France, wants a ministerial declaration in Marrakesh to accept that a new World Trade Organisation, to replace the Gatt next year, would deal with the link between trade and labour.

Developing countries fear this would open the door to new tariffs on their goods to compensate for the fact that they are produced with cheaper labour, and have refused to consider any reference to the issue in the Marrakesh declaration.

The European Parliament might also refuse to ratify the Gatt deal early in May if the Marrakesh meeting later this month produces no commitment to examine the link between trade and workers' rights. Mr Michael Hindley, leader of the majority socialist group on the European Parliament's external trade committee, said yesterday that the socialist group may refuse to ratify the treaty.

Indian demonstrators burn an effigy of Arthur Dunkel, former director-general of Gatt

Protests grow in India over Gatt accord

By Stefan Wagstyl in New Delhi

Hundreds of thousands of protesters staged a rally in New Delhi yesterday, in the biggest demonstration so far of public opposition to the Uruguay Round agreement on world trade liberalisation.

The meeting, organised by the right-wing militant Hindu Bharatiya Janata party, followed another on Tuesday called by left-wing groups, which also attracted more than 100,000 people.

At both events, speakers condemned the Uruguay Round draft accord as an instrument of oppression foisted by rich countries on the developing world. They said the agreement would pave the way to new economic enslavement of India.

At yesterday's rally, Mr Arthur Dunkel, former director-general of Gatt Trade, was burnt in effigy. The rallies highlight fears in India and other developing countries that the US and other rich countries will use the new World Trade Organisation, which is being established to replace Gatt, to impose one-sided conditions for trade with third world nations.

The public protests have not persuaded the government of Mr Narasimha Rao, the prime minister, to change its mind about approving the Urugay Round pact at the Gatt meeting in Marrakesh next week.

Like most other developing country leaders Mr Rao has accepted that the benefits of the agreement, in terms of greater access to world markets, outweigh disadvantages, such as opening India's markets to foreign companies faster than he would like.

But the recent US move to link trade pacts to social issues including minimum wage levels, pollution controls and human rights has angered India and other developing countries. The US action gave fresh impetus to the organisers of this week's Delhi rallies.

Tokyo backs US drive on labour

Developing country members of Gatt would benefit from a US proposal to establish an organisation to discuss the issue of labour standards and trade, Japan's ambassador to Gatt said yesterday, Michiyo Nakamoto reports from Tokyo.

Mr Nobutoshi Akao said "developing countries should not be too worried," about the US proposal, since the proposal was merely to discuss the issue rather than make any decisions right away.

The US has threatened to upset the signing of the Uruguay Round agreement in Marrakesh next week by insisting its proposal to establish a committee to discuss labour standards under Gatt be included in the declaration.

The US proposal is strongly opposed by developing countries, which fear the issue of labour standards could be used against them as a protectionist measure by industrialised countries.

Correction

US-Soviet launch venture

An article published on March 18 ("US-Russian space venture in key deals") stated that Lockheed-Khrunichev-Energia International (LKEI), a US-Russian venture to launch satellites using Russian Proton rockets, had secured contracts to launch up to five satellites for Société Européene des Satellites (SES), the operator of the pan-European Astra satellite system.

Although LKEI has reconfirmed it has an agreement to provide launch services for SES, a final decision on the launch provider for Astra 1F will, according to SES, not be made before the end of 1994. The US-Russian venture has pointed out that final agreements have yet to be reached on specific launches.

SES said that it has not signed a contract for the launch of five satellites on board Proton launch vehicles. However, SES is "considering launching the Astra 1F satellite on a Proton launch vehicle," said Mr Yves Feltes, a spokesman for SES, "and is proceeding with technical activities necessary to make such a launch feasible."

SES was incorrectly identified in our report as the operator of the DirecTV satellite broadcast system, which is about to be introduced in the US by Hughes. We regret this error.

Warning on China MFN row

By George Graham in Washington

The World Bank has warned the US and China that both countries could face consequences ranging "from the dramatic to the disastrous" if the US were to withdraw most favoured nation trade privileges from China.

In a study of trade reform in China the Washington-based development bank estimates that Chinese exports to the US could drop by between 42 and 96 per cent if the MFN privileges are not renewed – a loss of between \$7bn (£4.7bn) and \$15.2bn (£10.2bn).

The Clinton administration has demanded progress on a number of human rights issues before it will agree to renew MFN, which is due to expire on June 3.

An end to MFN privileges would mean that Chinese goods would be taxed at general tariff rates which are often five to ten times higher than MFN rates. The average tariff would rise from 13.4 per cent to 42 per cent.

The precise effects will vary, depending on how much other countries are able to sell substitutes for goods now sold by China.

US consumers could also lose, the World Bank says. They might end up paying as much as \$14bn a year more in higher prices.

Sinn Féin petitions Downing Street

By Michael Cassell

Downing Street was last night studying a letter from Mr Gerry Adams, president of Sinn Féin, calling for direct talks on Northern Ireland, but the government continued to insist there could be no dialogue without a permanent end to violence.

The letter urging Mr John Major, the prime minister, to end the stalemate by meeting Sinn Féin to clarify the Downing Street declaration was delivered to No 10 on the first day of the IRA's three-day ceasefire.

A Downing Street spokesman reacted cautiously, saying it might respond to Mr Adam's request for talks, which the Sinn Féin leader says would be aimed exclusively at clarification and not negotiation, "in the next day or two".

Earlier in the day, however, Downing Street had reiterated the government's position: "We are not negotiating with them and we are not going to clarify the joint declaration. They know what needs to be done, a renunciation of violence".

Despite suspicions voiced by some unionist politicians that the two sides are already in touch, Mr Tom Hartley, Sinn Féin's national chairman, yesterday denied his party was in contact with the government. He said he was not aware that any part of the republican movement was currently in contact with London.

At the gates of Downing Street are Sinn Féin's Tom Hartley, national chairman, and Lucilita Breatnach, general secretary

With an extension to the IRA ceasefire – due to end at midnight tomorrow – appearing highly unlikely in the absence of a positive government response, prospects for a breakthrough remain slim. Security forces in the province remain on full alert despite the temporary suspension of violence and there are fears that the end of the ceasefire will be accompanied by an upsurge in paramilitary activity by republican and loyalist extremists.

Mr Hartley, who was in London to deliver Mr Adams' letter, urged Mr Major to give an "imaginative response" to what he described as an "unprecedented initiative" by the IRA which demonstrated republican readiness to be flexible in the search for peace.

He criticised the government's refusal to talk to Sinn Fein, given its readiness to do so from mid-1990 until late last year. "When we raised points for clarification then, we got them very easily. It does seem odd the British are now saying 'no' at a time when there is a real possibility of political movement and a momentum being created".

Mr Hartley said the IRA had made three important initiatives in the course of the last year. In May 1993, it offered a two-week ceasefire, which was rejected by the British government.

Last September, said Mr Hartley, it supported the joint peace plan put forward by Mr Adams and by Mr John Hume, leader of the Social Democratic and Labour party. Now it had enacted the first ceasefire of its kind in 20 years.

Ms Lucilita Bhreatnach, Sinn Féin general secretary, said Dublin had provided satisfactory clarification of the Downing Street document but that ambiguities and uncertainties remained which London had to clear up. She declined to be more specific, saying it would be "unhelpful" at this stage.

UK company law faces widespread reform

By John Mason,
Law Courts Correspondent

Widespread reform of company law aimed at helping the growth of small businesses was signalled yesterday by Mr Neil Hamilton, the corporate affairs minister.

Simplification of the Companies Act 1985 and the creation of a new corporate organisation along the lines of an incorporated partnership are two ideas to be considered by a Law Commission review, he said.

The review, announced yesterday, follows on from a Department of Trade and Industry working party set up to study possible reforms of company law.

The move, which is part of the government's deregulation policy, is seen by ministers as a means of further removing obstacles to the growth of small businesses into medium sized companies better able to compete, particularly in the European single market, and to provide increased employment.

However, the DTI stressed yesterday that it should be seen as a necessary updating of current legislation rather than dramatic root and branch reform.

The idea of an incorporated partnership would dispense with some existing concepts of company law such as the distinction between shareholders and directors while retaining other key features such as separate legal responsibility and limited liability.

The simplification of the Companies Act might allow companies to opt out of some of its provisions. However, the protection provided for creditors and others would not be diminished, Mr Hamilton said.

However, it will be left to the commission to identify specific areas that require attention. The commission will now embark on a consultation process to identify the main problems facing small businesses before making any firm proposals. The commission is expected to report to ministers by July this year.

The commission will also look at reform of the law on legally binding corporate documents such as contracts and loan agreements. The DTI considers there are still fundamental problems with the law regarding such documents such as conflicting and inconsistent statutory provisions. It is thought that a consultation paper will be issued by the commission on this subject in 1995.

The announcements were welcomed by the Federation of Small Businesses. A spokesman said: "A move towards incorporated partnerships would be particularly important. It would help bridge the gap between partnerships and companies which is currently in serious weakness in Britain's industrial structure. At the moment, this gap means we are losing out in our trade with the rest of Europe."

Britain in brief

Berlin soccer match off over security

England's friendly international football match with Germany, scheduled for April 20 in Berlin, is off, the UK Football Association announced. The news comes against a background of fears that the exhibition game at the Olympic Stadium would prompt violence by neo-Nazi extremists and their leftwing opponents.

German soccer officials had pressed for the game to go ahead, saying it would be a mistake to give in to threats of rallies and demonstrations by political radicals.

The game was originally scheduled for Hamburg but was moved to Berlin after Hamburg officials said they could not guarantee security. Authorities feared the game could be a flashpoint for hooligans and extremists from Germany, England, the Netherlands and other countries.

The Olympic stadium was built by Hitler as a showcase for the 1936 Berlin Olympics.

English officials appeared reluctant to become involved in any incidents which could tarnish their image and reputation before England hosts the next European championships in 1996.

England first played in Berlin's Olympic Stadium in 1938, when, controversially, the players were ordered to give the Nazi salute.

Names face more losses

More than 4,000 Lloyd's Names who are members of seven lossmaking Gooda Walker syndicates will learn this week that they face additional losses of about £60m.

Gooda Names must pay the extra money to meet claims paid or notified last year. These stem mainly from two sources: the Lockerbie aircrash in 1988 and possible future court awards to Names who are suing their agents for negligence.

In a letter to Names GW Run Off, the agency now managing the Gooda syndicates, said: "certain results are materially worse than the estimates referred to in our preliminary report to Names issued in January 1994."

Total losses of the seven syndicates now amount to £988.4m and are expected to amount eventually to more than £1.15bn. GW Run Off said that claims paid during 1993 on business underwritten in previous years had exceeded earlier forecasts by £63.22m.

Overall Lloyd's Names – the individuals whose assets support the insurance market – have suffered losses of more than £7bn since 1988.

Bangers and dash...

Workers at a Scottish crisp factory found a live first world war French army hand grenade in a shipment of potatoes – for the second time in 10 days. The grenade, dating back like its predecessor to the Battle of the Somme, was spotted before it entered the manufacturing process. It was then blown up by army bomb disposal experts.

The first grenade, of the French army "modelle 1" type, turned up on Saturday March 26 in a 20-tonne consignment of French potatoes which arrived at the Bathgate, Lothian, plant of Highlander Snacks. The second – this time a P1 "Spoon" model which the French army started using in 1915 – arrived on Tuesday.

M0 signals on retail sales

Buoyant figures for money supply growth published yesterday may indicate that retail sales were healthy in March. M0, the narrowest measure of the money supply, grew by a seasonally adjusted 5.8 per cent in the year to March, compared to an annual rate of 5.5 per cent in February.

Notes and coins, the core component of M0, rose by a seasonally adjusted 0.9 per cent between February and March, and by 6.1 per cent over the 12 month period, according to the Bank of England. The annual growth in M0 has remained consistently above the government's target range of 0-4 per cent, although the authorities have pointed to low interest rates, which reduce the effective cost of holding cash, as a contributory factor.

M0 growth has traditionally been assumed to be correlated with retail sales. However, analysts warned that special factors may have applied in March. According to Mr Peter Warburton, chief economist at Robert Fleming Securities "the fact that Easter fell right at the start of April means consumers will have built up cash at the end of March."

Reserves rise $89m

The UK's gold and foreign currency reserves rose by $89m last month, taking reserves at the end of March to $43.5bn compared with $43.4bn at the end of February. The underlying change in reserves – which exludes various factors such as proceeds from this month's tender of UK ecu Treasury bills – was a drop of $45m. BT privatisation receipts – also exluded in the underlying change – amounted to $142m.

Steel role in SA elections

Sir David Steel, Liberal Democrat spokesman on foreign affairs, is to play a leading role in monitoring South Africa's democratic elections. As president-elect of Liberal International he has been appointed co-chairman of the European international monitoring team, and will head the observers in Natal province.

House loans sharply up

The number of mortgage loan approvals – regarded as an important forward-looking indicator – rose sharply in February compared with January, in a further sign of housing market recovery. Monthly figures released by the Bank of England show that on a seasonally adjusted basis, there were 88,000 loans approved in February, against 74,000 the previous month. The total value of those loans amounted to £4.65bn, compared with £4.33bn in January.

Ticketless face Tube spot fines

By Jimmy Burns

Travellers who rage over the perceived inadequacy of London's underground railway system are this week having to come to terms with an additional experience: a £10 penalty fare if they travel without a valid ticket.

London Underground launched the scheme on Sunday with the aim of stemming fare evasion that is estimated to cost around £30m per year. They say 1,000 people paid the penalty in the first three days of the scheme – 500 on the first full working day in the capital on Tuesday.

Over the past 18 months, LU has spent £2m explaining the benefits of the scheme and in giving training to 300 inspectors who will operate it.

Mr Donal McCabe, a spokesman for LU, said: "By spending £2m on the scheme, we expect to get back £6m which we would otherwise lose, and we can spend this money on helping improve the Underground."

The £6m, Mr McCabe pointed out, is expected to come largely from people paying fares at the outset rather than risking penalty payments.

LU says that the penatly scheme offers a short-term revenue booster while it is unable to finance electronic barriers more widely.

The inspectors have been drawn largely from existing staff and trained in "body language". LU says this is "the skill of avoiding confrontational situations" as well as knowing when "to use discretion in implementing the penalty".

New telecoms licences could cut call costs

By Andrew Adonis

The government gave a further boost to competition in the UK telecommunications market yesterday, awarding six new licences to operators likely to invest £100m in the next few years.

The licences will lead to new telecoms networks in London and Manchester – run respectively by Videotron, the cable operator, and Norweb, the electricity distributor based in the north-west.

The other four companies granted licences are Sprint and Worldcom, both significant US operators, Telstra, the Australian national operator, and Telia, the Swedish national operator.

They propose to provide a range of resale services, including international resale, which could cut the cost of international calls sharply as reciprocal agreements are signed allowing "international simple resale" – the carriage of leased-line traffic across the public networks in the UK and the destination country.

At present ISR is permitted only between the UK and Australia, Canada and Sweden. Resellers are anxious to enter the US market, but the US regulatory authorities have yet to permit ISR between the US and the UK.

The six companies have already invested more than £260m in the UK.

Mr Patrick McLoughlin, the UK's telecommunications minister, said the price of international phone calls was "too high" and the granting of licences to additional international operators was "a valuable addition to competition in this market."

Videotron, a cable operator building combined telephone and television networks in several parts of London, has been granted a telephony licence for the key London borough of Westminster and the finanical heart of the capital – the City of London.

It plans to start building a City telecoms network – the third new City network under construction – immediately, with work starting in the Westminster area later this year. British Telecommunications holds the cable television licence for the area, its only TV franchise in the country.

The granting of a licence to Norweb, the Manchester-based electricity distributor for the north-west of England, increases the stake of the privatised electricity companies in the telecoms industry.

Norweb already offers a point-to-point telecoms service to large users in its region. It plans to expand its network, focusing particularly on the Manchester business market in association with Energis, the long-distance telecoms operator owned jointly by the twelve regional electricity companies in England and Wales which is about to launch a long-distance network erected on the National Grid's pylons.

Party tries to distance Major from poll result

By Roland Rudd

Sir Norman Fowler, the chairman of Britain's ruling Conservative party, yesterday sought to distance the prime minister from the outcome of the forthcoming local elections, making it clear that Mr John Major would stay in office regardless of the result.

With rank-and-file MPs speculating that only an unexpectedly good performance could stave off a leadership challenge, Sir Norman flatly denied that the local elections on May 5 were a referendum on the prime minister's leadership.

Sir Norman said that while Mr Major would play a leading role in the campaign for the local government elections, the referendum on the prime minister had already taken place at the general election in 1992.

Asked whether the prime minister's leading role in the campaign was not a high risk strategy given poll evidence, Mr John Gummer, environment secretary, replied: "One of the joys of John Major is that once he gets out among people, people recognise in him the kind of greatness and leadership which he gives us."

The prime minister's office at Downing Street said the results of the local elections would have no bearing on the future of the prime minister who was said to be determined to remain in office and win the next general election.

Sir Norman was forced on to the defensive over questions that the Conservative party was demoralised. As well as facing the local government elections the party will have to defend parliamentary and European seats later this year.

"We are being told that we are going to do badly. We were told we were going to do badly in 1992 at the general election. We were written off.

"I am entirely content that people should take a sceptical view of our chances. We are going to fight these elections very hard indeed, as hard as we can. I very much hope, and I believe, we will have gains."

But Sir Norman resolutely refused to predict where he expected the Tories to make gains on May 5.

"I am not going to be drawn into where we are going to make exact wins," he told a Westminster news conference launching the Tory's local government election campaign.

Sir Norman said the party would fight the local elections as a choice between "high quality services at a value for money cost from Conservatives or expensive Lib-Labbery".

Mr Jack Straw, the opposition Labour party's environment secretary, accused Mr Kenneth Clarke, chancellor of the exchequer, and Mr Michael Portillo, Treasury chief secretary, of "sunning themselves on the Mediterranean" instead of taking part in the Conservative campaign.

Labour have also been careful to play down their chances of making big gains stressing that their successes in the last round of local elections in 1990 represented a highmark in their vote in many boroughs.

The last European elections were in 1989 when Conservatives were losing ground, but not on the scale of their defeats a year later when the council seats were last fought.

Ford tried to extract maximum advantage from the X100, reports **Kevin Done**

What it cost to keep Jaguar in Britain

The UK government's decision to give Jaguar £9.4m grant aid to persuade it to keep assembly of its new sports car in the UK could be dwarfed by the scale of the support that would be needed to ensure the company's next new range is manufactured in Britain.

Jaguar, the British luxury carmaker, acquired an array of new options for production locations after its £1.6bn takeover by Ford of the US late in 1989. Ford – which has made little secret of its pique at the UK government's strong support and encouragement for the rival Japanese carmakers Nissan, Toyota and Honda in the UK – is clearly determined to extract maximum advantage from any "mobile" investment projects.

Outside the company it had always been taken for granted that the new luxury sports car range – to replace the XJS coupé and convertible – would be produced at Jaguar's plants at Castle Bromwich, Birmingham (body welding and paint), and Browns Lane, Coventry (trim and final assembly).

But Ford made clear to the Department of Trade and Industry that the car – codenamed X100 – could just as well be assembled at its plant at Azambuja, Portugal, where the authorities were ready to provide handsome amounts of state aid to acquire such a prestige project.

This time £9.4m was enough to keep the X100 project in the UK. It is likely that much more will be needed when the bidding starts to attract the project for Jaguar's planned smaller sports saloon.

The project – codenamed X200 – is for the development of a new car range for Jaguar, below the XJ6 luxury saloon, which would compete with rivals such as the BMW 5-Series.

This car, planned for production towards the end of the decade, could radically increase Jaguar's production volumes, but it is far from clear that it would be built in the UK.

No final decision has yet been made, but it is expected that the new car would be a derivative from a new range of rear-wheel drive cars planned by Ford for production in North America.

The Jaguar version could be assembled in the UK, but it may need a large of amount of state aid to convince the US carmaker to make such a choice. Ford has faced a difficult ride with Jaguar in its early years of ownership. It has been in loss for the past five years and is not expected to return to profit until 1995.

Its fortunes are improving after radical restructuring and help from rising demand in the US and the UK, its two main markets.

Those fortunes should be further boosted by the launch later this year of the substantially revamped version of its XJ6 luxury saloon, the X300.

Jaguar cut its operating loss last year to $371m from a loss of $412m in 1992 and one of $354m in 1991. Last year it increased its retail sales by 22 per cent to 27,000 – including a 47 per cent jump in sales in the US to 13,000. Output increased by 43 per cent last year to around 29,500 from 20,593 in 1992, its lowest level of production for 11 years.

Following the cut of around 45 per cent in its UK workforce in the two years 1991 and 1992, its fortunes have improved substantially. Last year its UK workforce was virtually unchanged at around 6,450.

In contrast to much of the European car industry it avoided short-time working during 1993 and production is forecast to rise further this year.

Jaguar expects output to rise by more than 10 per cent in 1994 to 32,000-33,000. Production of the new XJ6 range will begin in the summer – with the body panels sourced from Ford's plant at Halewood – and Jaguar is hoping that output could be running at a rate of around 36,000-37,000 cars a year by the end of the year.

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TECHNOLOGY

Spider's route through jungle

James Buxton looks at a device to cut the cost of telecommunications

As companies send larger amounts of data between countries, the task of finding the cheapest route becomes more tricky. This month sees the launch of a system that aims to cut corporate telecommunications bills by up to 40 per cent.

Developed by Spider Systems of the UK, it will enable businesses transmitting data electronically to pick their way through Europe's jungle of telecommunications systems and always choose the cheapest method for their needs.

Edinburgh-based Spider Systems, a computer networking company whose main competitors are North American rather than European, claims that the SpiderIntegrator is the first product of its kind in the world.

The device is an advanced kind of router, a box loaded with circuit boards and software which companies connect to their local area networks of computers and workstations. A router selects the route for communication between two LANs in different places. The SpiderIntegrator offers the extra ability to select the cheapest route.

Most companies will need to use all the available methods – comprising leased lines, ISDN (integrated services digital network), packet switching systems and external modems – and grapple with charging structures. These differ across Europe and mean that, for example, leased lines are much more popular in the UK than in continental Europe. In Germany, ISDN is the commonest method while in France packet switching, hitherto popular, is being overtaken by ISDN.

According to Steve Collen, Spider's product line manager, some 85 per cent of the cost of a data communication network over its lifetime is accounted for by charges paid for using it, with the cost of the hardware accounting for only 15 per cent. "Tariff management is about cutting down on the 85 per cent," he says.

To do so, SpiderIntegrator offers three features. First, it can be configured to select different types of circuit for particular times of the day, to take advantage of different charges and the user's needs.

Second, SpiderIntegrator can respond to demand for transmission capacity or bandwidth by automatically opening up additional circuits and shutting them down when they are no longer needed. This facility might be needed to augment leased line capacity at peak times.

Third, it incorporates a feature called triggered RIP (router information protocol). Normally, routers exchange information about the state of the network every 30 seconds or every minute. But these calls are costly. SpiderIntegrator incorporates a protocol (a set of rules in software) by which the routers only exchange information when the information about the network changes, thus saving running costs.

Spider is offering this protocol, which it says is unique, as an international standard to encourage other manufacturers to incorporate it in their products. "Interoperability is in our interests," says Martin Ritchie, Spider's managing director.

Another feature of the SpiderIntegrator is that if it knows that at particular times of day it is cheaper to make a call from one country to another rather than vice versa, it can call another router automatically and ask it to call back.

A network manager will operate the SpiderIntegrator by plugging his personal computer into it and making selections from a menu. But it will be up to him to keep abreast of changes in tariffs and services and update the settings.

Collen says the SpiderIntegrator is flexible enough to accommodate the many changes likely in European telecommunications over the next few years.

Spider has spent £3m developing the SpiderIntegrator and expects sales of about £8m next year, believing it will appeal both to individual teleworkers and multinationals. The machines will come in two models priced at between £2,100 and £3,000 to distributors.

No cure for risk

Setting up a manufacturing plant is a particular gamble for drugs companies, says **Victoria Griffith**

Status symbol: the appeal of building a new production facility can be overwhelming

More and more biotechnology companies are crossing the perilous line from pure research and development to manufacturing, a move which could lead to the graveyard for some.

Those with strong roots in science and academia often have little or no experience in production. Even the most astute companies have trouble assessing if, when and how much they should be investing in manufacturing facilities.

Chiron, the US biotechnology company which last year received approval for Betaseron, the multiple sclerosis drug developed jointly with Schering of Germany, failed to build sufficient manufacturing facilities to accommodate demand for the drug, and has faced repeated shortages. At the other extreme, both Synergen and Centocor invested in manufacturing for drugs which were later rejected by the US Food and Drug Administration.

"It's a fine balancing act you have to pull off," says Amy Factor, vice president of Immunomedics, which has started expanding its research laboratory into a manufacturing plant for a still-to-be-approved cancer imaging product. "You have to walk the tightrope created by the uncertainty of not knowing whether your drug will get approval, what the demand will be if it is, and what your other options are."

Making life more difficult for US biotechnology groups are FDA regulations specifying that the drugs must be manufactured in the same way they were prepared for clinical trials. If the process veers from the original course, approval for the product may be revoked. As a result of this restriction, firms often sink millions of dollars of what they call "risk money" into manufacturing facilities they may never need.

Sometimes the gamble pays off. Amgen, for instance, invested millions of dollars on a plant for Epogen, a red blood cell stimulant, prior to its clearance by the FDA. "We'd started investing in the facility even before we had obtained any data from human trials," says Dennis Fenton, senior vice-president in charge of sales. "We were encouraged enough by the early trials to be optimistic."

Adding to the dilemma is the fact that most manufacturing plants can only accommodate specific types of products. Constructing a facility for bacteria-based products, for example, will not help much if a company later discovers a drug based on mammalian cells.

Some companies are seeking to gain flexibility through facilities that can handle more than one type of drug. The California-based giant Amgen is putting millions of dollars into an FDA-approved multi-purpose facility. "The FDA doesn't really like multi-purpose facilities," says Fenton, "but we showed them we had trained staff and sophisticated equipment so that the chance of any mix-up between the drugs was small."

Other companies are looking to resolve their manufacturing troubles by contracting out their production. This eliminates the need to invest money up front, but raises a number of other risks.

"There is a concern about proprietary rights," says Ken Bate, head of sales for Biogen, which uses an unnamed group to put out Hirulog, an anti-coagulant. "If the process is enhanced, who does that part of the patent belong to, the biotech firm or the manufacturer?" Biogen turned to an outside manufacturer because Hirulog was a bigger molecule than it usually dealt with and, therefore, could not be produced in the same facility as its other drugs.

There are other pitfalls involved in contracting out. For one thing, many companies are wary of handing so much information over to potential competitors. The relationship also has to be established early, prior to FDA approval, to ensure that clearance for the drug is not endangered. Another risk is that the manufacturing partner may later decide to stop putting out the drug, leaving the patent holder with no way to get its product to market.

Despite these concerns, the lure of a contract manufacturer is strong. The British company Celltech says it has been doing such good business on its contract production side that it will soon open a new US manufacturing facility in New Hampshire.

"We've stayed in this business by following some strict rules," says Iain Ross, president of Celltech Biologics. "First, there is no question of a breach of confidentiality with us. We have strict Chinese walls and the research side of our company, which is in competition with our manufacturing customers, does not receive any information on drugs we are making for other groups."

Commitments to manufacture products for outside firms are also taken seriously. "If our research and development side wants us to make a drug for them, they have to abide by the same rules as other groups," says David Jackson, vice president of US operations for Celltech. "That means they have to reserve capacity ahead of time. If there's no capacity available, they go on the waiting list."

There may be other ways, too, of minimising the risks of contracting out production. "We've made sure our partner has an interest in the drug doing well, and we trust that they will do a good job," explains Bate.

For many groups, however, the appeal of building their own facilities is overwhelming. A shiny new manufacturing plant is often seen as a status symbol in the industry, a sign of the company's coming of age. Moreover, a manufacturing plant gives groups full control of quality and output.

Besides the risks associated with FDA approval, companies face hurdles in building their own facilities. One serious obstacle is the severe shortage of managers and workers with any experience in making biotechnology products.

"Not many companies moving from research into manufacturing have the necessary management skills on hand," says William Young, senior vice president at Genentech, which has invested heavily in manufacturing facilities. "And to hire people with experience can be prohibitively expensive for the smaller firms."

Yet Young concedes that many companies may have no choice. The number of companies capable of producing drugs for others is limited. "Those of us with the facilities, like Genentech, are usually busy making our own products," he explains.

Start-up biotechnology firms, facing cash constraints, limited abilities to recruit the best people and uncertainty over drug approval, are particularly vulnerable. Indeed, the move to manufacturing may be one of the most difficult problems the industry faces. "The move to manufacturing is a tremendous challenge that most biotechnology companies haven't even begun to address," says Factor. "For many, this is a make or break decision."

Curb on Czech software copycats

International software producers are starting to take action against copycats in eastern Europe. In the first concerted attempt to enforce software copyright legislation in east European courts, the Czech branch of the Business Software Alliance, an international association of software companies, is acting against two local companies.

Robert Holleyman, president of the US-based BSA, said in Prague that police from the city's criminal investigation department had raided the offices of Dialog Agro – a computer company with Czech, US and Russian capital – on March 17, seizing "suspected pirate copies" of packages from Microsoft, Lotus, Symantec and two local developers, PJ Soft and Software602, all installed for the firm's own internal use.

Holleyman also said a Czech computer distributor, VT Data – suspected of reselling pirated programs – was raided by police in January and that civil and criminal actions had been initiated. Under the terms of the Czech Republic's criminal code, anyone found pirating software faces a maximum penalty of five years imprisonment or a Kcs2m (£46,000) fine.

The BSA estimates that 86 per cent of computer programs in use in the country are copied illegally, a proportion similar to that of Spain and Italy but lower than in most other east European states, while the legal market employed 15,000 locals and produced revenues of Kcs9m last year.

Lori Forte, BSA's European affairs director, said that, if anything, Poland rather than the Czech Republic had been the "black sheep" in the region with pirated software packages sold openly on market stalls in Warsaw.

A comprehensive copyright law stipulating maximum five-year jail terms for offenders was ratified by the Sejm (Czech parliament) on February 4.

Tom Pullar-Strecker

PEOPLE

Mining team digs in at Hambros

The complete 15-strong mining team at Indosuez Capital Securities (UK) has moved to Hambros Bank where a new subsidiary, Hambros Equities UK, has been set up to house them.

Among those who have moved is Chris Orchard (far right), now managing director of Hambros Equities UK, Roger Franklin (centre), executive director, dealing, and Graham Roberts (near right) executive director, research.

This trio, and many of the other team members, have been together for eight years during which time the organisation they worked for had several name changes. They started out with stockbroker Galloway & Pearson, which became WICO Galloway and then, after being sold to Banque Indosuez, W.I. Carr (UK). A merger turned that into Carr Kitcat & Aitken and, fairly recently, after a reshuffle at Indosuez, the team found itself working for Indosuez Capital.

Graham Roberts acknowledges that mining teams do not sit comfortably in any company in London where there has been a decreasing amount of interest in the sector – so much so that one gold miner, Monarch Resources, recently decided to move to the Toronto stock exchange instead. Nevertheless, Hambros is providing a home "which will be culturally a place where we can take the business a step further".

Hambros already owns Hambros Equities Australia, set up as a joint venture with Strauss Turnbull in 1986 and becoming HEA in 1990, which specialises in Australian mining and oil, banking, transport, media and technology companies. Ross McFadyen, managing director of the Australian offshoot, is chairman of Hambros Equities UK. Roberts says the combined Australian and UK businesses will offer a worldwide service, not just in international mining shares but also financial instruments in the South African and Australian markets.

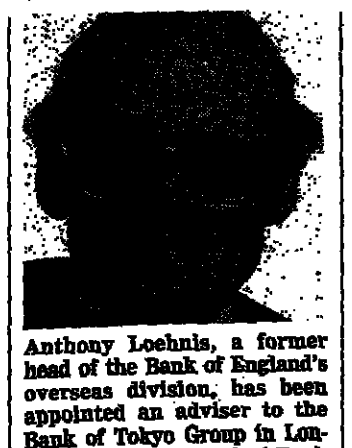
Other members of the Indosuez team who have already moved include, on the research side, John Barker and Chris Pearson; from sales, John Lee, Mike Long, Robert Lee, and David Starling, while the dealers are Mark Head, Mark Gibbons and Tony Phillips.

Non-executive directors

Lord Rees-Mogg, editor of The Times between 1967 and 1981, is to become non-executive chairman of International Business Communications, the newsletter publishing, conference and electronic data services group.

Lord Rees-Mogg, who also sits on the board of GEC and runs his own newsletter (Strategic Investment), joined IBC's board a year ago and will assume his new role following the group's annual meeting next month. Peter Rigby, IBC's chief executive, has been acting chairman since the death of Sir Roy Watts, the former chairman of Thames Water, a year ago.

■ Andrew Glasgow, chairman of North West Water International, at TUNSTALL GROUP.
■ Peter Hill, head of GUINESS MAHON's treasury division, as chairman at Guinness Mahon Guernsey.
■ Robert King, retiring chief executive of Bespak, at HALE HAMILTON (Valves) and Hale Hamilton Holdings.
■ Philip Cushing, a director of Inchcape, at BUNZL.
■ Howard Perlin, who has just resigned from Sears, at SIS, where, until Sears sold its stake, he was Sears' representative, and at GREAT PORTLAND ESTATES.
■ John Pattison, a former director of Hanson, at BLENHEIM GROUP.



Anthony Loehnis, a former head of the Bank of England's overseas division, has been appointed an adviser to the Bank of Tokyo Group in London and to the board of Bank of Tokyo International.

Loehnis, 58, is well connected in the City. An ex-diplomat, he's the son of the late Sir Clive Loehnis, a former director of the Government Communications Headquarters, and is related to Lord Remnant, a well known city figure. Loehnis joined J. Henry Schroder Wagg in 1966, and in 1977 was seconded to the Bank of England during the governorship of Gordon Richardson, a former chairman of Schroders. In 1981 he was appointed an executive director.

He left the Bank in 1989 and became a vice-chairman of S.G. Warburg where he remained for three years. He is currently a director of St James Place Capital. He fills a gap at the Bank of Tokyo which has been vacant for a year since the death of Nigel Robson who had been the Japanese bank's London adviser since 1984.

Grosso leaves Cookson

Roberto Grosso is stepping down as an executive director of Cookson Group, the specialist industrial materials group, and chief executive of the ceramics division.

Cookson said in a statement that Grosso "has decided to leave the group in order to pursue other interests", and will do so after the annual meeting next month.

Last month Cookson and Johnson Matthey, the precious metals group, announced that they were planning to link some of their ceramic interests in a joint venture to be known as Cookson Matthey Ceramics. Cookson's ceramic supplies and minerals division, part of its ceramics operations, will be folded into the joint venture.

Meanwhile, Stephen Howard, currently chief executive in charge of Cookson's group corporate development and chief executive of the engineered products division, will also become president and chief executive of Cookson's Brussels-based Vesuvius advanced refactories group. Gian-Carlo Cozzani, currently vice president of marketing and sales at Vesuvius, will become Vesuvius' chief operating officer.

■ Jonathan Strong, a former director of Speyhawk who has been running his own company, has been appointed md of Lynton, the property subsidiary of BAA.

■ Edward Sabisky, formerly assistant treasurer at General Motors in the US, has been appointed director, finance and administration, and Jim Raymond, formerly director of warehouse operations at General Motors of Canada, has been appointed director, aftersales, at VAUXHALL MOTORS.
■ Andrew Osmond, md European sales at GE Lighting Europe, has been appointed ceo of The MELVILLE GROUP.
■ David Burns, formerly head of legal services, has been appointed group company secretary at AIRTOURS.
■ Fred Watt has been appointed finance director of WASSALL; he succeeds David Roper who, with David Turner, have been made deputy chief executives.
■ Alison Canning, formerly md of Cohn and Wolf UK, has been appointed md and chief executive of BURSON-MARSTELLER UK; she succeeds Martin Langford who becomes vice-chairman of B-M Asia.
■ Mick McDonough, formerly vice-president sales in the US, has been appointed md of REMY & Associates (UK).
■ Joe Bisland and Richard Vaal have been appointed to the board of Abbott's Packaging, part of MACFARLANE GROUP (CLANSMAN).
■ David Holloway, formerly finance director of Harrison Industries, has been appointed European finance director of Tremco, part of B.F. GOODRICH.

MANAGEMENT: MARKETING AND ADVERTISING

Max on the move

Pepsi-Cola International is to market its new diet cola drink, Pepsi Max, in more than 20 countries by the end of the year, following successful trials in selected markets.

The company forecasts that the new drink will achieve retail sales of $250m (£171m) in 1994. Trials in the UK, the Netherlands, Ireland and Australia resulted in the brand gaining an average 3 per cent share of each country's cola market within five months.

The drink is aimed particularly at the young male market – a group which has been traditionally resistant to such diet products. While Pepsi Max is sugar-free, it does not advertise itself as a diet drink but emphasises a sporting image and "maximum" taste.

The drink contains a new blend of sweeteners intended to overcome consumer objections to the after-taste associated with diet drinks, and perceptions that the flavour of low-calorie drinks are "weaker" than regular versions.

Coca-Cola outsells Pepsi worldwide by about three to one, and the gap is wider when it comes to diet versions of the cola drinks. Pepsi said the new drink had "added significant net volume and share to the company's business" and that tests in the UK suggested the product was attracting previously loyal Coke drinkers.

There are no immediate plans for the drink to go on sale in the US – one of the sweeteners used in the product, acesulfame-K, has yet to be approved there. In addition, Pepsi says it does not want to eat into its US sales of Diet Pepsi. While diet drinks make up more than a quarter of all soft drink sales in the US, the figure is only about 4 per cent elsewhere.

Pepsi plans to launch the drink in 10 new markets by the end of next month, including Spain, Sweden, Japan and Thailand.

Diane Summers

Eye on the ball: US sponsors are focusing their advertising efforts on foreign markets since interest at home has yet to take off — Shaun Botterill

Sponsors target global goals

Patrick Harverson on how US companies are making the most of their association with the 1994 World Cup

With the opening game of the 1994 World Cup football finals less than three months away, the tournament's main corporate sponsors are spending millions of dollars trying to make the most of their association with it.

Yet involvement is something of a double-edged sword for the biggest US companies sponsoring the month-long sporting spectacular: car maker General Motors; Mars, the confectionery group; fast food chain McDonald's; Gillette, the consumer products group, and the soft drinks group Coca-Cola.

Sponsors can gain valuable international exposure by marketing their products in countries where people are passionately interested in football, and where the World Cup is widely regarded as the biggest event on the sporting calendar.

In the US, however, being a main sponsor of the tournament is considerably less rewarding. Football, or "soccer" as the Americans call it, is very much a minority sport and the World Cup holds little significance for most of the country. A survey conducted at the end of last year by a London research company found that only 35 per cent of Americans even knew that the World Cup was being held in the US this summer. That compares with 99 per cent awareness in Brazil and 83 per cent in Germany.

With an apparently unreceptive domestic audience, it makes sense for US sponsors to focus most of their advertising and marketing dollars on foreign markets. Having spent a reported $20m (£13.60m) on sponsorship rights, they are determined to get their money's worth.

Coca-Cola, a World Cup sponsor since 1978, has developed a variety of marketing events and products for consumers overseas. Gary Hite, the company's vice-president in charge of international sports marketing, says: "The fact of the site of the event is not a core reason why we're involved . . . We bought into it because it is such a magnificent global event. We'd be involved in it if it wasn't being held in the US."

Gillette, the US company with the longest history of backing the World Cup, also believes the greatest value of the company's sponsorship is in football's worldwide popularity. "No other sporting event can match the World Cup in terms of marketing power," said Alfred Zeien, Gillette's chairman, at December's World Cup draw in Las Vegas.

Among Gillette's marketing initiatives, the emphasis is on gaining exposure for its products in overseas markets. "Soccer is the universal language. If you set out to match a global brand with a global sport, there is no better choice," says Gillette.

Other US sponsors view the World Cup from the same perspective. Mava Heffler, vice-president of promotions at the credit card company Mastercard, which expects to have spent at least $75m on sponsorship and advertising by the time the tournament is over, says: "We have targeted the World Cup as a platform to help us build brand awareness internationally."

All of the main sponsors are employing similar tactics to exploit their relationship with the World Cup. Commemorative products abound (special Coke cans, a limited edition Gillette Sensor razor), as do competitions offering cash prizes or trips to World Cup games.

Television, however, is at the heart of most marketing initiatives: by the end of the World Cup, a cumulative audience of between 25bn and 30bn is expected to have watched the tournament. McDonald's has chosen to broadcast its first global television commercial for the World Cup, a single 30-second spot which will air on six continents, starting next week. Mastercard is also running a global television commercial, featuring the Brazilian footballer Pele.

Other companies will be sponsoring special programmes or television series for broadcast around the world. Gillette is backing a 13-part series on the World Cup that will be seen in more than 50 countries. Coca-Cola is launching a "Coca-Cola World Cup '94 Radio Network", which will broadcast reports and features on the tournament to foreign countries.

Sponsors are keen to utilise the large advertising boards – rarely seen in US sports – which surround the football pitch. GM plans to match them to television viewers in each country. Thus, when a team from Europe or South East Asia is playing, it will use the boards to display the logo of Opel, the company's chief brand in those two regions.

Similarly, the name of Chevrolet, the brand which GM sells in Latin America, will be on display for games involving countries such as Brazil and Mexico. Jim Latham, GM's project manager for World Cup '94, says this "tele-targeting" – aiming different boards at different audiences – is many times more effective in reaching viewers in Europe than in the US. "Advertising on soccer pitches is very well-known and means something in non-US markets," he says.

While aiming to make a big impression overseas with their World Cup marketing, US sponsors have not taken their eye off the ball at home, even if many Americans are more likely to be watching baseball during June and July.

In the US, sponsors are focusing their marketing in niche markets, such as the nine cities hosting the games, and among immigrant communities where football's popularity is strong. The Spanish-speaking market is attracting the most attention – Coca-Cola and McDonald's, for example, have organised "La Copa Coca Cola", a regional amateur football tournament.

The sponsors are also hoping that Americans will pay attention to the World Cup once they realise how important it is to the rest of the world. Hite says: "Americans love big events. Once people realise what a huge event it is, they're going to say: 'I want to be a part of that'."

Ultimately, the extent of interest in the US will depend greatly on how well the US national team does in the tournament.

Budget rises are likely despite last year's fall, says **Diane Summers**

Forecasts lift spending gloom

Advertising expenditure in European Union countries fell by about 1 per cent in real terms in 1993 – the first time a fall has been recorded in recent years, according to provisional figures from the UK's Advertising Association and the European Advertising Tripartite*.

However, the outlook for 1994, within the EU and for a number of other countries monitored by the organisations, looks promising, with a return to real, although modest, growth of about 1 per cent for this year.

Finland, Spain and Sweden's markets suffered most last year: economic difficulties had a direct impact on advertising budgets and cutbacks in spending of more than 4 per cent were recorded. Belgium, Denmark, France, Germany and Japan's advertising spend also fell.

Modest increases in overall spending were seen in the US, UK, Ireland, Italy, the Netherlands, Norway and Switzerland, while exceptional growth was recorded in Greece (12.8 per cent) and Portugal (8 per cent). According to the Advertising Association and the European Advertising Tripartite, "the growth of advertising expenditure in these countries has been dramatic, despite the recession, because of an increase in the availability of media vehicles, greater media competitiveness and the strong performance of the broadcast media, especially television".

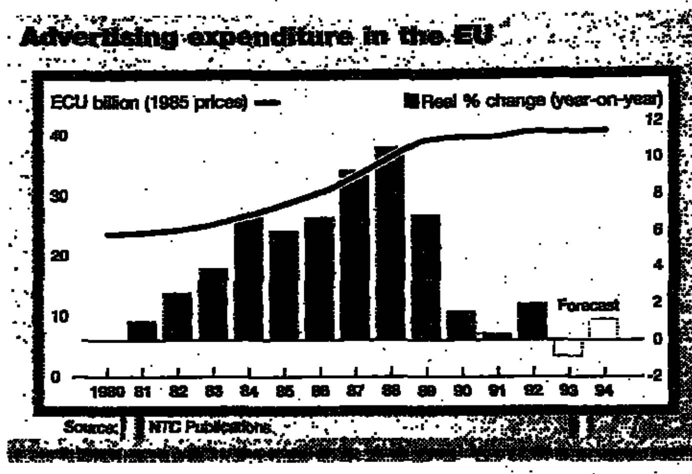
Indeed, in all countries monitored, apart from Austria and Belgium, the growth in spending on television advertising outstripped print. Television overtook newspapers to become the single biggest display medium in the EU in 1992; by last year it became the biggest display medium in the whole of Europe. Double-digit growth rates for TV were seen in Greece, Portugal, Norway and Sweden.

This trend looks set to continue: further European deregulation could eventually lead to an almost doubling of the current annual Ecu 15bn (£11.8bn) spending on TV advertising.

The outlook for 1994 is encouraging, say the two bodies. On the back of the apparent return of confidence and positive economic indicators they are forecasting real growth in advertising expenditure almost everywhere. "The exceptions are likely to be Finland, the Netherlands, Spain and Japan. However, the real falls in advertising expenditure in these countries are, in the main, likely to be marginal."

**European Advertising and Media Forecast. Subscription inquiries to NTC Publications. Tel 0491 574671.*

Advertising expenditure in the EU



Source: NTC Publications

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Cinema/Nigel Andrews

And the band plays soap opera

A worthy film about Aids too closely resembles an old Hollywood biopic

AND THE BAND PLAYED ON (12)
Roger Spottiswoode

GRIEF
Richard Glatzer

THE DIARY OF LADY M (18)
Alain Tanner

REDHEADS (15)
Danny Vendramini

A closing caption in *And The Band Played On*, based on Randy Shilts's bestselling book about the discovery of Aids, reveals that 25,000 Americans died from the disease before President Ronald Reagan deigned to make his first speech on the subject.

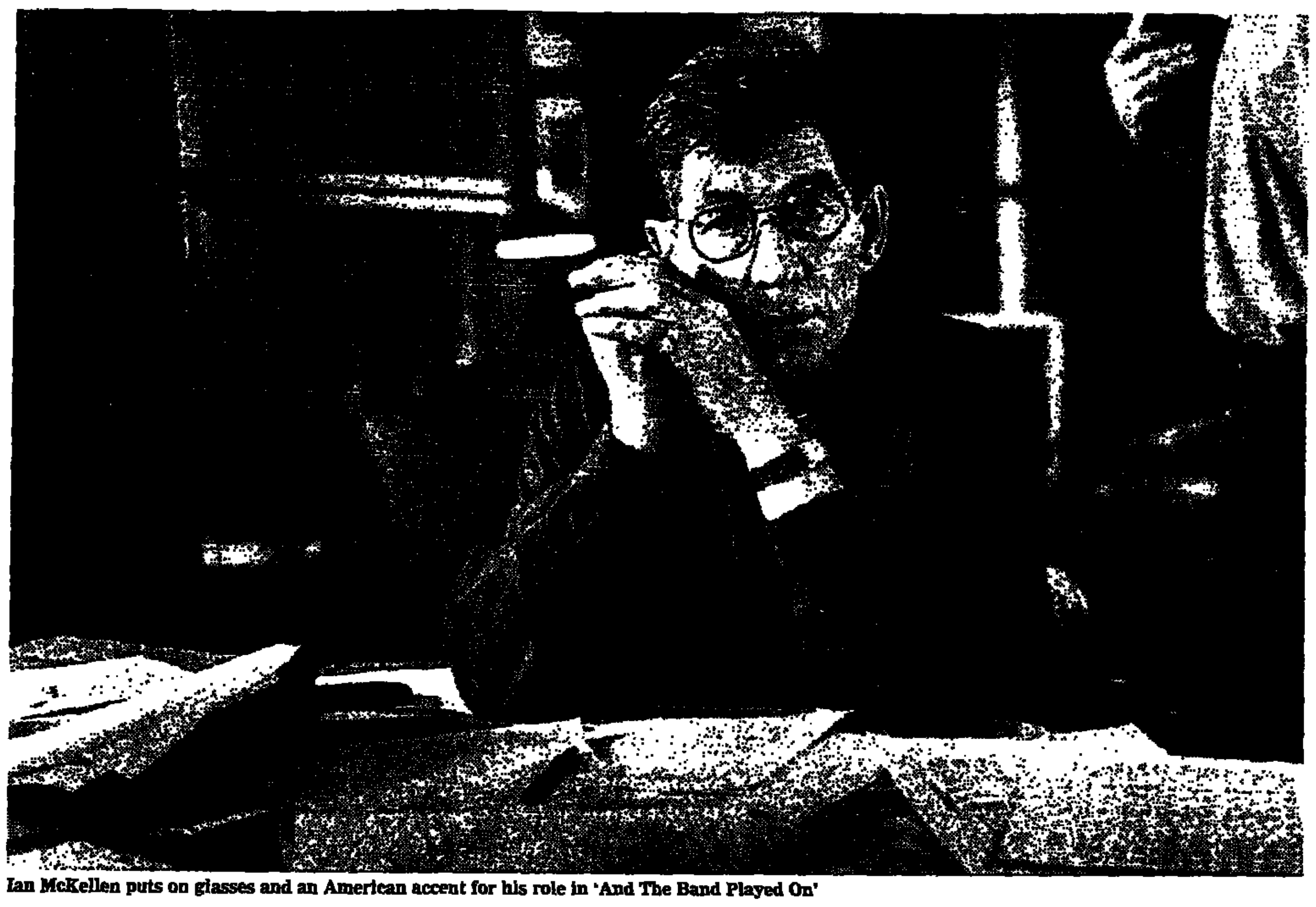
Hollywood has some nerve. It has taken 15 years, and a spectacularly higher death toll, for mainstream American cinema itself to broach the topic in earnest. *Philadelphia* saw us through Oscar time. This week two more films, *Band* and Richard Glatzer's *Grief*, arrive to show that the illness that once dared not speak its name – indeed could not settle on a name for several years (it was originally, we are told, called GRID) – is now developing a startling taste for the soapbox.

And The Band Played On is massively worthy: 2¼ hours of all-star inspirationalism and medical-historical legwork. We meet the brave band of researchers at the Atlanta Center for Disease Control, led by Matthew Modine as the real-life Dr Don Francis.


Myriam Mezieres and Juanjo Puigcorbe in 'The Diary Of Lady M'

We watch the trans-Atlantic test-tube war between America's Dr Bob Gallo (Alan Alda) and France's Pasteur Institute (Nathalie Baye, Patrick Bauchau), both claiming first-discovery honours over the virus. And we goggle at the procession of guest stars, from Hollywood natives such as Steve Martin, Richard Gere and Anjelica Huston to our own Ian McKellen (American-accented) and Phil Collins (indefinably accented as a louche bath-house owner).

Finally, of course, we applaud the capacity of the Human Spirit to overcome anything put in its path, including films such as this. It is wicked to mock an affliction, but in the demonological landscape of Aids a movie like *And The Band Played On* may be part of the affliction. Devoid of a single moment of pain or complex emotional revelation – let alone of real rather than sentimentalised "struggle" – the film plays like one of those old Hollywood medical biopics, only without the flair. Having despaired of reality, we end up wishing the film would go the whole romantic hog and bring on Greer Garson, brandishing her smile, her bunsen burner and her ever-attentive Walter Pidgeon.


Ian McKellen puts on glasses and an American accent for his role in 'And The Band Played On'

If *And The Band Played On* is *Madame Curie* with the glums, Richard Glatzer's *Grief* is a gay *Soapdish* – and surprisingly enjoyable for it. This movie of confused sexuality is set in the mad mad world of American daytime television. Mark (Craig Chester), who has lost his lover Kenny to Aids, falls for Bill (Alexis Arquette), who is having an affair with Jeremy (Carlton Wilborn), all under the eye of butch boss Jo, played by drag performer Jackie Beat. And that is just *behind* the scenes of The Love Judge, the series about a divorce court on which they are working.

Soap opera itself being the art form of emotional instability, a soap production company is the perfect world for pixillated feelings. Glatzer, a first-time filmmaker, does not seem quite sure whether he is spoofing soap emotionalism or subscribing to it. But that is part of *Grief*'s charm. The straight faces with which the actors collide into one crisis after another ensure that innocent gravity cohabits with sly comedy: a combination that never in deft hands fails.

A terrible hilarity overcame the press show audience at Alain Tanner's *The Diary Of Lady M*. To my left, The Independent and The Sunday Telegraph, were knee-deep in chortles; to my right, The Times, agog with satiric disbelief. It is hard to believe the dialogue in this film about a nightclub singer's AC/DC affairs with a Barcelona painter and his North African wife. And then we must grapple with the images.

The Swiss director who once commanded respect with *The Salamander* and *Jonas* now appears to be joined at the hip, or at some other body part, with writer-actress Myriam Mezieres, who plays the heroine. Their last collaboration, *A Flame In My Heart*, was bad enough: the earnestly wanton tale of a circus lady's *amours prodigales*.

But here we reel from one voice-over enormity to another – "I was the plain covered with almond trees that Van Gogh painted" – while the pictures try vainly to keep up with the logorrhoea.

Redheads runs *The Diary Of Lady M* close for worst film of 1994. Danny Vendramini directs the Brisbane-set tale of two carrot-headed women, a criminal (Claudia Karvan) and a social worker (Catherine McClements), who discover a strange kinship in the wake of a murder. The kinship finds expression in their breathless delivery of B-movie dialogue and their tendency to wave their arms about in front of a wobbly camera.

Occasionally someone screams, rages or loses consciousness – or was that just in the audience?

Clean Break's Red

Anna Reynolds, the writer in residence for the Clean Break Theatre Company, has developed an unmistakeable style.

Clean Break means what its name suggests, plus a lacing of feminism: it is a company for women ex-prisoners and ex-offenders wishing to break with the past.

Ms Reynolds was once a prisoner. Her writing draws heavily on her experience and suggests that she sees theatre as a kind of therapy for those who are locked up, though I suspect that no one can write as well as she does without considerable background reading. In any case, her works are already appealing to a wider audience, and deservedly so.

Her early piece, *Jordan*, was first performed at the Lilian Baylis Theatre two years ago. The revival of that acclaimed production can still just about be caught (that is, until April 10) at the Battersea Arts.

Based on a true story about a woman, Shirley Jones, who was incarcerated for killing her baby son and then committed suicide on the day of her release from prison, it is a monologue full of incident. As in the original, it is superbly acted by Moira Buffini, the co-author, as Shirley.

Ms Reynolds's *Wild Things* was enthusiastically reviewed by my colleague, Alastair Macaulay, when it had its premiere in Salisbury last November. It is now touring.

The new work is *Red* at the New End Theatre in Hampstead. The trouble is that the author has already set such high standards that the immediate comment is that *Red* is not quite as good as *Jordan*. There is the slight feeling of having been there before.

In *Red* there are two characters, both of them women in a remand cell beneath a Crown court and both of them charged with a murder of a kind. This may seem an advance on *Jordan* in that there is an opportunity for dialogue as well as narrative. There are certainly contrasts.

One of the women, Gerda, is white English upper middle class, aged 40. She has not directly murdered her husband, but has not exactly discouraged her rough young lover from doing so.

If you note a borrowing from Hester in Terence Rattigan's *The Deep Blue Sea*, you will not be alone. Gerda prefers sex to respectability. She is immaculately played by Carrie Thomas, who keeps her make-up in place to the last.

Gerda is also socially adept. Kay, her companion in the prison cell, is black. When Gerda asks her where she comes from, there is only momentary surprise when the answer is Essex, not somewhere in the Caribbean. Gerda takes it in her stride.

Kay, played very strongly by Leonora Rogers-Wright, is more skilled in the ways of dealing with judges and juries. She has picked up some of the lines from Shirley Jones in *Jordan*: when to smile at the bench, when to cry and when not and when to try to tell the truth.

The women talk to each other, or at each other, a lot. They recognise that they are more or less in the same boat: social and ethnic differences are irrelevant.

But there is no great dialogue, and in the end I concluded that there was more variety in the monologue of Shirley Jones. Still, Ms Reynolds can certainly write. *Red*, like *Jordan*, is directed by Fiona Buffini, sister of Moira.

Malcolm Rutherford

Continuing at the New End, Hampstead, until April 24. (071) 794 0022.

La Gran Scena pays tribute

In case anyone still does not know who they are, La Gran Scena is a group of American males whose speciality is presenting opera snippets in drag. Such a bald description fails to do justice to the affection that has gone in to their portrayals of composite *prime donne*: a bouffant hairstyle here, a shy protestation of unworthiness there. Detailed knowledge, too – the cooing *pianissimo* whitening into the curlew mew of Madame X, the gallantly heaved-out top register of Dame Y. The effect is less brash, even less outrageously camp, than might be expected. These men obviously love their opera. It's no surprise that their fans include Leontyne Price and Joan Sutherland.

Above all, they love their *dive*. The pervasive image is that of the 1960s, when Sutherland, Tebaldi and Bumbry were at their imperious height, high-piled coiffeurs as much part of the uniform as the codified hierarchic display of a mandarin's robes. But Ira Siff, the company's founder and chief writer, has kept up with the times. One of the highlights of the new programme is a tribute to such exponents of the new post-modern deconstructionist school of opera production as "Peter Sellout" (no prizes for guessing who): the last act trio from *Der Rosenkavalier* set in a New Jersey shopping mall, replete with surtitles for those who loathe them, sung by Marsh-Lynn (a sleek matron returning from a bar-mitzvah), Octavian (giggling to his walkman in his "I Love Older Women" T-shirt: Philip Koch, impeccably in character as a woman playing a man) and a blonde hop-head Sophie.

The programme's humour veers from pantomime-dame clumping via hoary Coarse Acting jokes to the wickedly observant. Keith Jurosko's 105-year-old prima donna quavering through *Home Sweet Home* evokes those crackly old dinner-plate 78s and is oddly touching.

Johnny Maldonado's mezzo is unnervingly convincing, though it is not true that Covent Garden has cast him as Amneris in their forthcoming *Aida*. The company also includes Mirella Frenzi, the tenor Mario Costa-Plenti and such distinguished understudies as Anna Turnover-Somehow, Batleen Cattle and Mo Guiseppe Monopoli. And Ira Siff, the company's only begetter, triumphs in the last act of *La Traviata*, which sums up the show's ambiguities under its layers of artifice on artificiality: part parody, part homage, part shadow of mortality falling across brittle, painted things.

Martin Hoyle

Bloomsbury Theatre until April 13.


Ira Siff as Madame Vera Galupe-Borszkh

Theatre/Andrew St George

Lorca's life

As the excellent Spanish Arts Festival continues in London, the Lilian Baylis Theatre is staging a life of the poet and dramatist Federico Garcia Lorca (1898-1936). This one-man show is written and performed by Trader Faulkner; its closeness to Lorca's life alone makes exhilarating theatre; but its greatest strength is the fine Flamenco dance and music.

Lorca lived life on his emotions. His poems and plays, particularly the 1930s' Earth Trilogy of *Bodas de sangre*, *Yerma* and *La casa de Bernada Alba* are rooted in the Andalusian earth. Few graduates in Maritime Law – Lorca's degree at Granada University – can have been so attached to dry land. *Lorca* duly evokes the bright streets and the dark interiors of Granada, the passion of Flamenco and the sadness of *Cante Hondo*, the Deep Song of the Andalusian gypsies. This play makes Lorca's plays more understandable, his poems less aloof. And, through Lorca's poems, it looks west towards new writing in Spanish.

Lorca moves at an uneven pace: there is no plot and little sequence. It tracks Lorca's sad, passionate life from leaving Granada in 1919 for Madrid, his studies and friendships there with Luis Bunũel, Salvador Dali and Manuel de Falla, his travels to New York and South America, and his return to Granada where he was shot by the Fascists on August 19, 1936. Everywhere he went he lived the painful life of a man on the verge of reinventing himself. He was passionately in love with Dali. As a homosexual, he was often abused as "maricon" (queer) or "perro" (dog), a nasty joke which inspired Bunũel's *Chien Andalou*.

The play delivers all this, and sets Lorca's poems to music and dance, flickering in and out of Spanish and English. Each scene is punctuated by the Flamenco dance and music which give the play its visceral quality. The language – both Spanish and English – is sensual and visual, using Lorca's own poems. There is a wonderful bullfight based on the death of Lorca's friend Ignacio Sanchez Mejias the matador – *A las Cinco de la Tarde*. There are sexually evocative love poems, stark pictures of rural Andalusia, and a loose-limbed South American sequence where the stern rhythms of Granada meet the New World.

The piece is superbly acted and sung. Trader Faulkner as Lorca, with the excellent Tito Heredia (guitar), Liana Vargas (dance) and Luz Elena Caicedo (songs) produce an ensemble performance of top quality. Faulkner himself manages the bilingual feat of memory, the intricacies of Flamenco steps, and maintains the intensity of Lorca's life.

Lilian Baylis Theatre (071 278 8916) until April 23.

INTERNATIONAL ARTS GUIDE

BARCELONA

Palau de la Musica Tomorrow, Sat, Sun morning: Enrique Batiz conducts Barcelona City Orchestra in works by Halffter, Nielsen and Rimsky-Korsakov, with clarinet soloist Larry Passin (268 1000)

BOLOGNA

Teatro Communale Yevgeny Kissin gives a piano recital on Mon. A new production of I Lombardi opens on April 15, with a cast headed by Ruggero Raimondi and Norma Fantini (051-529999)

LONDON

THEATRE

● Hated Nightfall: Howard Barker directs his new play about the last hours in the lives of the Russian imperial family. Ian McDiarmid plays Dancer, the man instructed to put an end to the Tsars. Now previewing, opens on Mon (Royal Court 071-730 1745)

● Johnny on a Spot: Richard Eyre directs a new production of Charles MacArthur's 1942 play - part political satire, part wise-cracking American comedy. In repertory at the Olivier with Alan Bennett's stage adaptation of The Wind in the Willows (National 071-928 2252)

● The Merchant of Venice: David Calder and Penny Downie take the leading roles in David Thacker's acclaimed Stratford production of Shakespeare's great play of love and money, prejudice and justice. Opens tomorrow (Barbican 071-638 8891)

● Ghosts: Jane Lapotaire plays Mrs Alving in Katie Mitchell's RSC production of Ibsen's most controversial play (The Pit 071-638 8891)

● Rope: Keith Baxter's acclaimed Chichester Festival production of Patrick Hamilton's tale of malice bred from boredom, with Anthony Head as Rupert Cadell. Now previewing, opens on Mon (Wyndham's 071-867 1116)

● A Month in the Country: Helen Mirren and John Hurt star in Turgenev's languid portrait of romantic evasions in a world of flux (Albery 071-867 1115)

● Beautiful Thing: a Bush Theatre production finally reaches a bigger audience with this Jonathan Harvey play about two teenagers growing up on a London housing estate (Donmar Warehouse 071-867 1150)

● Travesties: Antony Sher heads the cast in this West End transfer of the RSC production of Tom Stoppard's 1974 play, directed by Adrian Noble (Savoy 071-836 8888)

● Dishonourable Ladies: Honor Blackman, the ex-English rose who developed a wicked twinkle, presents her new one-woman show exploring the historical role of the femme fatale (Criterion 071-839 4488)

OPERA/DANCE

Covent Garden The final two performances of Birmingham Royal Ballet's London season are a mixed bill tonight and tomorrow, with choreographies by Balanchine, MacMillan and Agnes de Mille. The Royal Opera has Un ballo in maschera on Mon and Wed with Francisco Araiza, Nina Rautio and Giorgio Zancanaro, followed next Thurs by a revival of Harrison Birtwistle's Gawain, staged by Di Trevis and conducted by Elgar Howarth, with a cast led by John Tomlinson and François Le Roux (071-240 1066)

Coliseum ENO has a new production of Yevgeny Onegin, staged by Julia Hollander and conducted by Alexander Polianichko, with a cast headed by Peter Coleman-Wright and Cathryn Pope, plus Philip Prowse's staging of Bizet's Pearl Fishers. The world premiere of Judith Weir's new opera is on April 20 (071-836 3161)

CONCERTS

South Bank Centre Tonight, tomorrow: Klaus Tennstedt conducts LPO in works by Barber, Strauss and Tchaikovsky, with soprano Felicity Lott. Tonight (Purcell Room): Joanna MacGregor piano recital. Sat: Leonard Slatkin conducts Philharmonia Orchestra in Gershwin, Glass and Ives, with violin soloist Gidon Kremer. Sun afternoon: Rafael Orozco piano recital. Sun evening: Medici String Quartet with pianist Nikolai Demidenko. Mon: Slatkin conducts Philharmonia in Ellington, Bernstein, Gershwin and Copland, with piano soloist Joanna McGregor. Tues: Alfred Brendel piano recital. Tues (QEH): East Anglia-based Britten Orchestra gives its London debut with works by Philip Cashian, Haydn, Britten and Copland. Wed: Howard Shelley is piano soloist and conductor with London Mozart Players (071-928 8800)

Barbican Tonight: Andrew Litton conducts Bournemouth Symphony Orchestra in works by Bernstein, Rakhmaninov and Shostakovich, with piano soloist Yefim Bronfman. Sat: concerto final of BBC Young Musician of the year. Sun afternoon: Verdi's Requiem with Royal Choral Society. Sun evening: Dave Brubeck. Mon: final concert of London International String Quartet Competition (071-638 8891)

MADRID

Auditorio Nacional de Musica Tomorrow, Sat, Sun: Aldo Ceccato conducts Spanish National Orchestra in works by Tchaikovsky and Stravinsky, with piano soloist Elisabeth Leonskaya. Tues: Victor Martin violin recital (01-337 0100)

Teatro Lirico La Zarzuela Tues: world premiere of El Cristal de Agua Fria, music by Marisa Manchado, libretto by Rosa Montero. Repeated April 15, 17, 19 and 21 (01-429 8225)

MILAN

Teatro alla Scala This month's repertory consists of Don Pasquale and Kenneth MacMillan's ballet Manon. The Donizetti runs till April 22 with casts including Bruno de Simone, Nuccia Focile, Eva Mei, Lucio Gallo and Ferruccio Furlanetto. The MacMillan ballet, with Massenet's music conducted by Patrick Fournillier, opens on April 16 with a cast led by Alessandra Ferri and Julio Bocca. Andrea Lucchesini gives a piano recital on Mon (02-7200 3744)

NAPLES

Teatro San Carlo Sat, next Tues, Thurs and Sun: Reynald Giovaninetti conducts Beppe de Tomasi's production of La Favorita, with Luciana D'Intino, Giuseppe Sabbatini and Paolo Coni (081-797 2331)

PALERMO

Politeama Garibaldi Bellini's Capuleti e Montecchi runs till April 27, with casts including Mariella Devia and Gloria Scalchi. There is also a final performance on Sat of three one-act operas by Luciano Chailly (091-6053 315)

PRAGUE

CONCERTS

Dvorak Hall Tonight, tomorrow: Gerd Albrecht conducts Czech Philharmonic Orchestra in symphonies by Mozart and Bruckner. Tues: Alena Cechova violin recital (02-2489 3352)

Smetana Hall Next Mon and Wed: James Judd conducts Prague Symphony Orchestra in works by Britten, Haydn and Brahms (02-231 9164)

OPERA

● This month's repertory at the National Theatre includes Dvorak's Rusalka, The Jacobin and The Devil and Kate, Smetana's The Secret and The Bartered Bride, and Verdi's Don Carlos and La forza del destino (02-2491 3437). Estates Theatre has staged performances of Mozart operas on April 15, 19, 25 and 29 (02-2421 5001)

● Prague State Opera has Un ballo in maschera tonight and next Tues, Il trovatore tomorrow, La traviata on Sat, Cosi fan tutte on Sun afternoon and Tosca next Wed (02-2421 5031)

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ROME

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Teatro Valle Tomorrow: Berlin Philharmonic Sextet. Sat: Yevgeny Svetlanov conducts Russian State Symphony Orchestra. Sun morning: Strumentisti dell'Accademia di Santa Cecilia. Sun evening, Mon and Tues: Daniele Gatti conducts Orchestra dell'Accademia di Santa Cecilia in works by Mozart and Mahler (06-678 0742/06-6880 3794)

Universita La Sapienza Sat: Ysaye Quartet plays music by Haydn, Debussy and Dusapin. Tues: Piotr Anderszewski piano recital (06-361 0051)

TURIN

Teatro Regio Tonight, Sat and Sun afternoons: Donato Renzetti conducts final performances of Giorgio Gallione's production of La rondine, with casts including Nelly Miricioiu and Jean-Luc Viala (011-881 5214)

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Yen for a monster with its own mind

BOOK REVIEW

NIHON KAIZO RON
(Blueprint for Building a New Japan)
By Ichiro Ozawa
Kodansha Publishing House
Y2,900 (or $19.95 outside Japan) in English from April 17; or Y1,500 in Japanese. 93 pages.

What country is like a giant dinosaur with a tiny brain? That simile was once used by historian George Kennan to taunt the US for its inability to exert its power internationally before the second world war.

Today it applies to Japan, according to Mr Ichiro Ozawa, the Tokyo government's back-room strategist. Mr Ozawa's latest book shows Japan as a passive economic monster of little imagination whose failure to adapt will turn it into a fossil unless it wakes up fast.

It is no surprise that Mr Ozawa, as prime mover behind Japan's recent radical political changes, argues further reform of the political system is the first condition for awakening the tiny brain.

Washington's trade hawks, who have been reading this book closely, will draw a different conclusion. For those who believe Japan's political reforms are incomplete and unconvincing, this book could be taken as evidence that foreign pressure is still needed to help Japan change its inward-looking ways.

Yet the foreign pressure argument, says Mr Ozawa, is dangerous for both sides. To be durable, change must come from within.

But before Japan can find a new form of life, it must find its identity. This, Mr Ozawa believes, is buried under a concrete sprawl in which every big city, playground and park looks the same. Moreover, it is stifled by a conformist education system, and is denied expression by a web of regulations.

Japan's identity problem results, ironically, from the fact that it is a descendant of the US dinosaur. It owes most of its economic power to having its post-war security guaranteed by Washington, rather than to its own workers' diligence, argues Mr Ozawa.

But the end of the cold war undermined "the very foundation" of Japan's prosperity by removing its value to the US as a bastion against communism in Asia. To compensate, Japan must now become an "international nation", taking a full part in world diplomacy, including United Nations' peacekeeping.

That bit of Mr Ozawa's argument is standard fare from the increasingly powerful internationalist camp in Japanese politics, to be found on the right-wing of the coalition government. He does not air the alternative view – for a low-profile Japan that seeks a return to traditional values. That can be found in another newly published book, *A Small but Radiant Nation* (in Japanese only) by Mr Masayoshi Takemura, chief cabinet secretary. These two books explain the visions of Japan at the heart of the power struggle in the seven-party coalition.

Mr Ozawa's book makes it clear he believes the stakes in this power struggle are higher than many foreigners imagine. Japan's economic future and chances of becoming a "normal" nation hang on its ability to play a more active part in the world.

Japan should learn from successful merchant nations of history, such as the city state of Carthage and the Venetian Republic. They achieved long-term prosperity – 1,000 years in Venice's case – by becoming much more than merchants, he recalls.

In different ways, Carthage and Venice ploughed resources into ensuring peace and free trade in their main markets. Japan has only just begun to do so. Mr Ozawa does not suggest that Japan should develop the modern equivalent of a Venetian navy or a Carthaginian mercenary army. But it should pay the cash, diplomatic and human costs of assuring peace and free trade – and just as important, of international respect for itself.

To play a more active role in world affairs, Japan must first get to work on internal institutional reform, starting with the political system. Mr Ozawa makes practical suggestions to boost the authority of the prime minister and cabinet in order to clarify where decisions are made and improve policy debate in cabinet and parliament.

He believes a UK-style system, in which the cabinet is at the heart of government, could solve Japan's problem of a government with no clear centre of authority. This would bolster prime ministerial power, which on the evidence of Mr Morihiro Hosokawa's recent U-turns is even more fragile in Japan than Britain.

Mr Ozawa also has high praise for the British tradition of having a large number of non-cabinet ministerial posts. This trains politicians to take part in policy-making rather than, as in Japan, just carrying out bureaucratic instructions.

A more imaginative central government would improve Japan's ability to achieve the other tasks needed to become a "normal country" – including deregulation, tax reform, decentralisation and improved town planning, all part of the Hosokawa administration's programme.

Yet Mr Ozawa also sees a sociological explanation for Japan's dinosaur-like qualities, though he does not discuss it much. As he admits, the book is supposed to be a workmanlike look at the shortcomings in Japan's system of government.

Democracy has never really taken root in Japan, partly because of an inherited collective spirit and an education system designed to stamp out independent thought. Mr Ozawa believes this system is faulty at both ends – too rigid at school level and too dull at the university stage.

The book's theme is that Japan's cure must start with the head, which means creating a more modern government, both on the international and domestic level. From this will gradually evolve a Japan to be envied, rather than derided, by foreigners.

Yet tantalisingly, Mr Ozawa says little about what his "Japanese dream" would look like. Perhaps this lacuna is evidence of his own theory that Japan suffers from an under-exercised imagination.

William Dawkins

ECONOMIC VIEWPOINT

Drug abuse tackled the wrong way

By Samuel Brittan

What business has an economist or economic commentator to write about drug abuse and the case for decriminalisation? The first and most obvious reason is that drugs make up one of the world's largest industries. International trade in illegal drugs is estimated at $500bn a year. The turnover of the criminal firms which run the world's illegal drugs traffic is higher than the national income of 50 of the world's 70 leading nations.

Secondly, and more controversially, economists start with a presumption that the consumer is the best judge of his or her own interests. It is a presumption that can be overthrown in extreme cases; and the costs imposed on other people from widespread drug consumption need attention. But at least the starting point favours competitive market approaches against the heavy hand of regulation.

Thirdly economists are concerned with analysing markets, including government intervention in them. They can thus contribute to understanding the effects of attempts to criminalise production and consumption of products, whether alcohol in the US in the 1920s or other addictive drugs today.

Measures to reduce supply – such as customs seizures, fines, imprisonment or confiscation of assets – act as a tax on suppliers. The risks are much greater than in a normal market, and the prices at which the drugs will be supplied are correspondingly higher. The trade becomes a high-risk, high-reward one in which criminal gangs have an advantage over normal traders. They have every incentive and opportunity to collude to exclude outsiders to keep the surpluses they can earn over and above those they could gain from normal activities.

To take an example. One gram of heroine of 40 per cent purity is said to have a street value of £80. If it were available as a gram of pure heroin it might sell in the illicit market for £200. By comparison, legal supplies of heroin cost the NHS less than £6 per gram.

The demand side is more controversial. But if demand were very sensitive to price over the relevant range, then high prices would already have reduced the problem of addiction to modest proportions. The fact that it has not supports the view that demand is very inelastic for addicts and drug dependants – that is what these words mean.

Given a high-risk, high-price market for products with an addictive quality, one would expect present worldwide restrictive legislation to encourage criminal activity. The addicts steal to pay for their drugs; and suppliers will stop at nothing to maintain an enormously lucrative trade.

Things were not always thus. In the early 19th century, British governments actively supported drug traders, for instance in the Opium Wars against China. Draconian anti-drugs laws are fairly recent and have largely been spearheaded by the US. British legislation dates back mainly to the Dangerous Drugs Act of 1920.

In Hong Kong, Thailand and Laos, anti-opium laws were enacted over the period between 1950 and 1980. The result was a switch from traditional opium use, contained and controlled by local custom, to heroin, which is less bulky and more profitable.

In the Andes, cocaine has replaced the traditional and less harmful chewing of coca leaves. In Colombia, three presidential candidates have been murdered for drug-related reasons. The drug trade is now the largest single support for organised international crime; and about half the murders in the US are drug-related. In Britain the problem is not (yet) on the same scale; but drug-related theft may amount by value to half of all theft.

The analysis and facts so far cited all come from a new paper, *Winning the War on Drugs: to Legalise or Not?* by Richard Stevenson, director of the Liverpool University Health Economics Unit, and published today by the Institute of Economic Affairs (£8.50). So careful, however, has the IEA been in treading on this minefield that the paper also contains two comments by medical practitioners eminent in the field. Professor Julius Merry, a professor of clinical psychiatry at St Thomas's Hospital, agrees with Mr Stevenson, who comes out for careful legalisation. A second commentary written jointly by two psychiatrists and a criminologist disagrees strongly. But even it favours some liberalisation of policy and practice.

'If some insist on using drugs, it is better that they buy them from non-criminals'

We have, of course, been here before. Witness the history of alcohol prohibition in the US in the 1920s, as summarised in the 15th edition of the *Encyclopaedia Britannica*. "Prohibition brought into being a new kind of criminal: the bootlegger. The career of Al Capone was a dramatic instance of the development of bootlegging on a large scale. His annual earnings were estimated at well over $60,000. The rise of the bootlegging gangs led to a succession of gang wars and murders. A notorious incident was the St Valentine's Day massacre in Chicago in 1929 when the Capone gang shot to death seven members of the rival "Bugs" Moran gang. Historians of the underworld, however, suggest that by the late 1920s bootlegging was on the verge of semi-monopoly control and the end of gang wars was approaching."

The *Encyclopaedia* does not mean criminality was ending, but that there were signs of the bootleggers agreeing on sharing what they might have called "the loot" and the IEA "the economic rent".

Some effects of the official war against drugs are the opposite of those intended, even from the point of view of drug users. The high price of illegal drugs encourages injection, which is the most economical but also the most hazardous method. "At high prices, users are more likely to share doses and needles, so the risk of transmitting disease is increased." Another response to high prices is to become a small dealer and sell to friends, thus spreading the habit.

Although alcohol consumption fell in the US after prohibition ended, this may have been due to special circumstances, such as the Great Depression. An economic observer ought to concede that, if drug prices were lower, there could be more casual experimentation – not that the law prevents 30 per cent of young people from occasional use at the moment. It is a matter of choosing between this risk and the growing sub-culture of criminality and addiction.

Legalisation in one country also has its problems. One danger would be the kind of drug tourism seen in Amsterdam. More seriously, the Colombian cartels and the billions of dollars in laundered money would continue to exist so long as the US continued its anti-drugs crusade. But here, at least, there may be a glimmer of hope from the less straight-laced Clinton administration. The US surgeon-general, Dr Jocelyn Elders, has urged a study of legalisation.

No-one, whatever his speciality, can predict the consequences of a large legislative leap into the dark. Two kinds of gradualism are possible. One is that already practised by some local British police forces: they do not prosecute for possession of small quantities of drugs but advise addicts to enter treatment. A more rule-of-law approach would be to experiment with legalising softer drugs and imposing the kinds of tax already borne by alcohol and tobacco.

Stevenson provides an analogy in the case for legal abortion: "Abortion is tragic but, given that it will occur in any circumstances, it is better that it should be performed competently. In the same way it would be better if everyone could cope without mind-altering drugs, but prohibition is unenforceable. If some people insist on using drugs, it is better that they should buy them from law-abiding businessmen rather than criminals, and better still if they can be integrated into society and brought under medical supervision if it is needed."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
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UK tax rises give cause for pessimism

From Mr Stephen Radley.

Sir, Your article on the effects of UK tax rises ("Shoppers in the line of fire", April 2) reflects the emerging consensus among many economists that the recovery will continue to gain pace this year and next despite higher taxation. Our analysis of the current situation and of past tax rises supports a somewhat more pessimistic view. It also suggests that we should look closely at the effect of last year's budgets on both consumer spending and investment.

Both of the last two large tax hikes, under Labour in the mid-1970s and under the chancellorship of Geoffrey Howe at the start of the 1980s, coincided with falls or stagnation in consumer spending. Though those experiences will not be repeated, this does suggest the rate of increase in consumer spending should be slowed by the tax increases. Past tax rises were offset by substantial cuts in interest rates and, in the latter case, by the relaxation of controls over personal borrowing in the 1982 Finance Act.

This time the reverse is true. Though there may be some delayed effects from the interest rate cuts over the last two years, the next movement in interest rates is just as likely to be up as down, while lenders, particularly in the housing market, are becoming more cautious. Consumer confidence indicators suggest that the recent tax rises have made the personal sector more cautious, while we should not put too much faith in the confidence boosting effects of falling unemployment as most of this is down to increases in less secure areas of employment such as part-time work and self-employment.

One of the best hopes may be that retailers continue to offer sufficiently large discounts – such as those available in the January sales when the month-on-month fall in the price of clothing and footwear was the largest for 70 years – to allow consumers to spread their incomes further. However, with unit labour costs rising, this will squeeze profit margins. Given the strong links between current and expected profits and investment levels, we should therefore be looking closely at what the budget means for the recovery in investment just as much as that for consumer spending.

Stephen Radley,
chief economist,
The Henley Centre for Forecasting,
9 Bridewell Place,
Blackfriars,
London EC4V 6AY

Cost takes shine off free trade

From Mr John Pitts.

Sir, I have received a request for the renewal of my annual subscription to a business guide published in the UK. After giving details of the £99 payment due it says: "Please draw your cheque on a sterling bank account in the UK. If cheque not drawn on a UK bank please add £17.00 to cover bank charges." This is a general requirement and therefore applies within the European Union. A thumping levy by banks of 17 per cent on this sort of cross-border trade takes a lot of the shine off the Union as a free trade area.

I can understand why financial institutions like to enjoy the profits earned on currency transactions. I can understand why governments like to retain national currencies so that they can manipulate them for national advantage. But while these benefits come in the short term, there must be a substantial price to be paid in the long term. European businesses will suffer both in the size of their domestic markets and in their wider international competitiveness.

Will the Maastricht treaty be able to address this problem, or will it turn out to be rather like asking bookies to vote for fewer race meetings?

John Pitts,
Hall Garth House,
Carthorpe, Bedale,
North Yorkshire DL8 2LD

For richer, but surely not for poorer

From Mr Michael Goldman.

Sir, Michael Prowse makes a cogent defence of Thatcherism ("What was right with the 1980s", April 5), but one does not have to be an egalitarian to disapprove of the growth of inequality.

Even if there is no objection to the rich getting richer, who can approve of the poor getting poorer?

Michael Goldman,
1 Lyndale Close,
Blackheath,
London SE3 7RG

From the Rev David Galilee.

Sir, Your readers would do well to compare the naive complacency of Michael Prowse's article (April 5) with a much more realistic analysis of what has actually happened in America to jobs and security in an article *Why fascism is the wave of the future*, by Edward Luttwak (London Review of Books, April 7). The writer is director of geo-economics at the Centre for Strategic and International Studies in Washington. Luttwak's prognosis for the US and European economies is grim, especially in the growing insecurity over jobs. He says: "Thus neither the moderate right nor the moderate left even recognises, let alone offers any solution for the central problem of our days: the completely unprecedented personal economic insecurity of working people, from industrial workers and white-collar clerks to medium-high managers."

Instead of the all too easy jibes at the Archbishop of Canterbury, Michael Prowse should take on board Edward Luttwak's analysis and try and suggest a solution.

David Galilee,
St Mildred's Vicarage,
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Croydon CR0 7HR

Statutory interest is not a solution

From Mrs Anthea L Rose.

Sir, Your leader, "Late payment of bills" (March 28), draws attention to the problems facing many small businesses and the difficulties of using legislation as an effective remedy.

The Chartered Association of Certified Accountants (ACCA) is well aware of the problems as many of our members are active in the small business sector, being either in business themselves or providers of financial support services to small businesses.

In our submission to the government's consultative paper, we reject the notion of a statutory right to interest on overdue payments.

We believe that the introduction of statutory interest would legitimise the practice of late payment, to the extent that unscrupulous businesses might choose to pay interest to suppliers on overdue debts rather than to borrow at higher rates from other sources.

Thus, there might evolve a form of incentive, courtesy of statutory interest, to maintain a practice of late payment, and the existing problem might accordingly be exacerbated.

In any case, were companies to be entitled by law to an interest payment on overdue debts, we seriously question whether the interest element would, for the most part, constitute such a material amount as to motivate them to go to the trouble and expense of retrieving it through the courts.

A more practical solution to the problem may be to use the VAT system as a form of control mechanism, whereby businesses which paid bills after an unacceptable delay would be forced to wait or be unable to recover VAT paid.

However, it is a fact that effective remedies to the problems of late payment require a fundamental change in business attitudes and culture; late payment must cease to be regarded as a fact of business life or as a tool of astute financial management.

Anthea L Rose,
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FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Thursday April 7 1994

Bloodied but unbowed

Yesterday's car bomb attack in the northern Israeli town of Afula is another reminder of the fearful symmetry of violence which threatens at every turn to obstruct the Middle East peace process. On one side are the Palestinian Islamic militants who claimed responsibility for yesterday's bombing, apparently in retaliation for the massacre of about 30 Arabs in a Hebron mosque in late February. On the other are Jewish extremists such as the fanatical settler, Baruch Goldstein, who carried out the Hebron shootings.

Both sides, though sworn enemies, have a common goal: to ensure, by striking in the most horrific manner at the most sensitive possible moments, that the agreement between the Israeli government and the Palestine Liberation Organisation providing for Israeli withdrawal from and Palestinian self-rule in the Gaza Strip and West Bank does not succeed.

Fortunately, the current evidence suggests it is they, not the agreement, that are failing. The anguished standoff between Israel and the PLO that followed the Hebron massacre has been replaced by an invigorated attempt to reach detailed agreement by April 13, the date set in the Declaration of Principles they signed on the White House lawn last September. Moreover, the Israeli army appears to be preparing the ground for an eventual accord by pulling equipment and forces out of Gaza and the Jericho area. For the first time, the negotiations of the past year can be said to be producing tangible change where it matters.

Important concessions

What recent events have underlined is that neither Israel nor the Palestinians have any option but to stick to the process on which they are embarked. Both sides made important concessions to restart negotiations – Israel by allowing an international observer force into Hebron; the PLO by shelving demands for the removal of Jewish settlers from the West Bank town. Moreover, by banning two Jewish extremist groups, the Israeli authorities have acknowledged for the first time that terrorists from their midst can pose as much of a threat as those from the other side.

Resolve of this kind will be much in demand in the months to come, both in Israel and among those attempting to bring about Palestinian self-rule. For if there is one certainty about the fragile experiment in coexistence now underway, it is that there will be further violent attempts to throw it off course. The agreements struck thus far contain too many loose ends to instil confidence that such threats will be contained, and their implementation is surrounded by too many worrying uncertainties – not least concerning the capacity of Mr Yassir Arafat, the PLO leader, to rule an embryonic Palestinian entity with authority, competence or even real democratic legitimacy.

Jewish settlements

The most ominous grey area concerns the Jewish settlements in the territories. These are supposedly unaffected by the interim agreement now being implemented. Even after Israeli soldiers have withdrawn from most of Gaza and the West Bank and handed over the security of their Arab inhabitants to Palestinian police, some will stay behind to protect the settlements. There is plenty of room for misunderstanding or worse between the Israeli military and Palestinian forces, especially in places like Hebron, where Jewish settlers live in the thick of Arab population centres.

So far, Mr Yitzhak Rabin, the Israeli prime minister, has been understandably reluctant to broach the settlements issue. It is one of the difficult questions to be decided in "final status" negotiations that are supposed to start up to two years into implementation of the Israel-PLO Declaration of Principles. It also represents a political minefield in Israel. Nevertheless, it is an issue which may have to be addressed sooner rather than later if the interim accord is to bring lasting peace to the occupied territories. Mr Rabin would be well advised to make a start now by vowing, without prejudice to the overall fate of the settlements, to shift the most politically inflammatory of them out of Arab towns. It is in Israel's interest, as well as that of regional stability, to remove such sources of friction from what in any case will be a fraught process.

Superhighways for Britain

It might seem appropriate that just as the government has decided to scale back the UK's road building programme, the debate is accelerating on the merits of a national fibre-optic grid taking a multimedia "superhighway" up everyone's front garden.

The connections are more than superficial. In terms of capacity, fibre is to copper what motorways were to village lanes. A national fibre network, like the motorway system, can be built incrementally: despite the "superhighway" tag, it is no more than an upgrading or duplication of existing local telecoms networks (trunk networks are already fibre). There might even be a trade-off between highways and superhighways: current projections of future trunk road requirements, inevitably based on historic trends, make insufficient allowance for the potential of "teleworking" and video-conferencing to transform work and travel patterns.

But the relationship should not be pushed too far. Demand for superhighway services – entertainment, information, education, home shopping – is still largely speculative, particularly at current projections of their price. Even the fate of video-on-demand, the first service set to come on line, is uncertain: punters are unlikely to pay much of a premium to avoid a 10-minute trip to the local video store.

Cash cows

Nor should a fibre-optic grid be viewed as a unique national asset to be provided by public funds. Telecoms companies are among the largest cash cows the world over: if there is a market for superhighway services, they will be able to raise the money easily enough without troubling hard-pressed taxpayers. State funding ought to be reserved for subsidiary but critical goals such as the application of fibre networks to education.

In the UK, the most immediate question is the future of the ban on BT carrying entertainment services over its network. The ban was a deliberate bid by the Thatcher government to encourage cable companies to compete with BT in telecommunications. As such it was justified; but it would be an unjustifiable waste of national resources were it seriously to hold BT back from upgrading its own network.

Such an eventuality would not arise if the government announced now its intention to lift the entertainment ban in 1998, which it could do within the terms of the ban itself. Then BT would be free to decide the case for further fibre investment on its commercial merits. If Mr Michael Heseltine, the trade and industry secretary, is truly concerned at Britain's competitive edge, he should take this step and not risk Britain languishing in the installation of fibre networks.

Fair access

The other side of that coin, however, is that operators besides BT should have full and fair access to BT's existing and future networks. BT need not have fibre monopoly – indeed it is unlikely to have one, given the welcome investment by cable companies in competing urban fibre networks. But if it goes ahead with further investment in fibre, BT is certain to have Britain's most extensive, and probably its most advanced, superhighway. To ensure a diversity of services, other operators must have access to that network on the same terms as BT itself.

Mr Don Cruickshank, the telecommunications regulator, is taking the essential first steps to ensuring such open access. He is forcing BT to account for its network business separately from its retail activities, and to publish cost-based charges for access to specific services needed by competitors requiring access to the BT network. His guiding light is the benefits to be had from competition in terms of diversity of services and downward pressure on prices.

This is the right approach. It is important, however, to be clear about the object of the exercise, which is not to emasculate BT but to give consumers maximum choice consistent with an efficient use of existing resources. The upshot will undoubtedly be a smaller market share for BT than the 90 per cent it now commands. But to go further and use the regulatory system to endow new entrants with long-term subsidies at BT's expense would be to resurrect the evils of the old nationalised telecoms regime.

Turkey has taken steps to avert economic crisis - but the price may be a political backlash, says **John Murray Brown**

Falling back to earth with a bump

After teetering for two months on the edge of an economic precipice, Turkey this week has tried to pull back from the brink. Under pressure from a plunging lira and dramatic gains by Islamic radicals in last week's local elections, Turkey's conservative-led coalition on Tuesday announced an austerity package in an effort to restore economic health.

Mrs Tansu Çiller, the prime minister, warned that Turkey faces Latin American-style hyperinflation unless the programme is implemented. The measures include unpopular moves to raise taxes and state-controlled prices and close public sector companies, as well as an effective further devaluation of the lira. This fell yesterday to 39,900 to the dollar against 32,050 on Tuesday, after the central bank stopped supporting the currency.

In launching Turkey on an uncomfortable economic journey, Mrs Çiller, a 48-year-old former Istanbul economics professor, seems to have little clear-cut idea of the destination. In her televised address on Tuesday, she said she hoped the measures would spur export-led growth and would not "stop the economy". In fact, if the austerity package is to work, a sharp economic slowdown – and a possible political backlash – may be difficult to avoid.

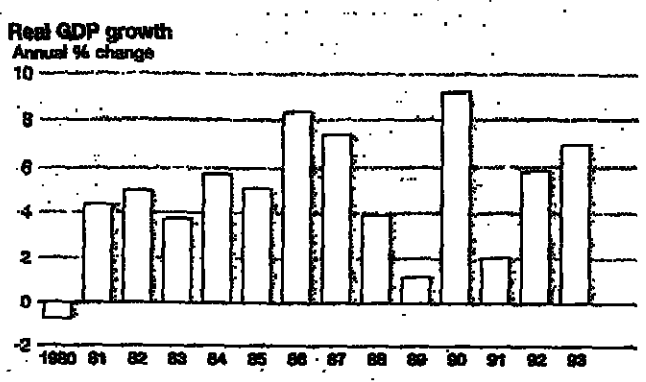
Ominously, workers from the Zonguldak coal works, and from the Karabuk iron and steel factory – both earmarked for possible closure – launched protest marches on Tuesday to voice opposition against expected large-scale lay-offs.

The immediate cause of Turkey's economic crisis was the decision in January to devalue the lira by 12 per cent, in an early attempt to correct economic problems. This sparked a self-fuelling fall in the currency and rising concern among foreign creditors, in spite of domestic interest rates which were raised at one point to 1,000 per cent.

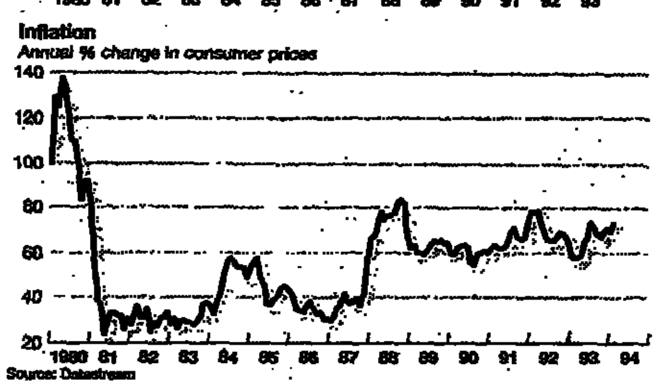
The reasons for Turkey's problems, however, go much deeper. For most of the past decade, annual inflation rates have rarely been lower than 50-70 per cent. At the same time Turkey has registered annual economic growth rates well above those of other countries in the 24-nation Organisation for Economic Cooperation and Development (OECD). As an OECD official put it this week, "Turkey has been defying the law of gravity for years. But you can't run an economy with a 50-60 per cent inflation rate without it collapsing."

The public sector borrowing requirement last year was running at 16 per cent of gross national product. To bring down the deficit, the government plans widespread price rises for commodities such as petrol and sugar. It wants to step up privatisation by selling $3.5bn worth of state assets in 1994 – a forecast which may turn out to be heavily optimistic. Overall, Mrs Çiller envisages cutting the central government's budget in the next three months by TL38,000bn through revenue increases and cost savings.

Turkey's economy: stored-up troubles



Tansu Çiller, prime minister



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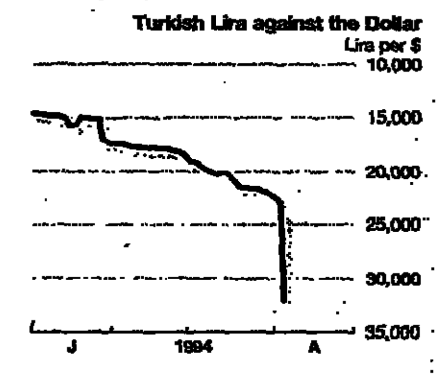


With an inflation rate of 74 per cent in March, the time of reckoning has clearly arrived. However, while the government realises the pressing need to cool the economy, it also fears the possible consequences. An important reason for Mrs Çiller's failure to take remedial action earlier was the memory of the effects of Turkey's last big austerity package, announced in January 1980 by her predecessor Mr Suleyman Demirel, who took over as Turkey's president in May last year.

The 1980 measures, launched at the behest of the International Monetary Fund to boost exports and control inflation, led to months of social disruption which eventually sparked a military coup d'etat in September 1980. Mr Mesut Yilmaz, the leader of the main opposition Motherland party, Anap, this week called Mrs Çiller's package "a bad copy" of the January 1980 measures.

Since the reinstatement of democracy after a change of constitution in 1982, Turkey has made an impressive political and economic recovery. But anxieties about political stability have resurfaced in recent weeks as a result of violent unrest in the Kurdish speaking south-east of the country and the surprising gains made by the Islamic-based Refah party (RP) in the municipal elections on March 27.

The RP gains, particularly its victories in Istanbul, the largest city, and the capital Ankara, unsettled Turkey's pro-western secular political class. Coupled with reports of Islamic vigilantes imposing Islamic rules on the streets of Turkish cities, the election results have heightened the risks if Mrs Çiller's economic package fails.

In some ways, however, Mrs Çiller emerged strengthened from the elections. After campaigning on a platform of tough law and order measures against Kurdish rebels, her True Path party finished with a narrow overall victory over the Anap opposition party.

Nevertheless, the suggestion that the secular reforms established by the new Republic could now be at risk sets off alarm signals among Turkey's western allies. Turkey remains a vital strategic partner for the west in a troubled part of the globe bordering the Balkans, the Caucasus and northern Iraq. Also, the country is an important source of business for the European Union, with trade between Turkey and the EU reaching $20bn in 1993, making it the Union's ninth largest trading partner.

Turkey is making an all-out attempt to increase the competitiveness of its economy in preparation for the planned customs union with the EU in 1995. Its application for membership of the EU was made as long ago as 1987. However Turkish ministers are resigned to countries from central and eastern Europe joining the EU some time around 2000, perhaps a decade before the date when Turkey will be allowed to accede.

One important factor clouding relations with the EU is Turkey's heavy-handed military clampdown on Kurdish unrest. Sir Leon Brittan, the EU trade commissioner, has also warned, during a visit to Ankara in February, that Turkey would benefit from the customs union only if it took firm action to control state finances.

With international credit agencies this year having twice downgraded Turkey's debt rating, EU officials believe Turkey can ill afford to delay its customs union commitment. But industries such as the powerful automobile sector – hard hit by this year's steep rise in borrowing costs – are looking for exemptions to the customs union timetable. EU Commission officials warn that this will be countered by calls from European textile producers to retain quotas against Turkish textiles.

The government's most important short-term priority is to implement Mrs Çiller's programme and make it work. All too often since she took over as prime minister last summer, her economic policy achievements have failed to match her rhetoric. However western economists point out this is the first time the government has explicitly envisaged the closure of loss-making state industries.

"If this is what is needed to keep the fundamentalists out of power that's fine, I think people are prepared to pay the price," was how one Istanbul banker put it. Western diplomats believe Anap will eventually endorse the measures – above all because, after its lack-lustre performance in the municipal elections, Anap is in no mood to force an early general election.

The prospect that Turkey could fail to implement the package is, however, deeply worrying – not just for Turkish industry and for holders of the country's $64bn foreign debt. A severe economic crisis would give further support to Islamic radicals – raising the prospect of a shift in Turkey's western orientation that would further unsettle one of the world's most volatile regions. As Mrs Çiller in coming weeks struggles to deliver the economic medicine Turkey urgently needs, much more than the fate of the Turkish economy will hang in the balance.

Bank of France must go its own way

PERSONAL VIEW

What do Mr Jean-Claude Trichet and his colleagues on the Bank of France's monetary council think about the Bundesbank's problems in controlling German money supply? After renewed signs during the past few weeks that M3 'broad money' is expanding beyond the Bundesbank's target range, should France not be implementing a monetary policy suited to its own domestic economy, rather than acting as a Bundesbank satellite?

We are unlikely to find the answer to either question – at least in any coherent way. The monetary council, since it was set up in January, is behaving more like yet another elitist club within a secret state than a pioneer of a new liberal monetary order. Mr Trichet, the Bank's governor, announced after the council's first meeting that he is the sole spokesman to the press. Any suggestion that council members would voice their views publicly, in similar fashion to officials of the Bundesbank or the US Federal Reserve, was rebuffed.

cynics would argue that there are no secret council deliberations to discover. Attempts by journalists and market analysts to ferret out the council's position on the biggest question of all – should French monetary policy become much more independent of the Bundesbank? – could mirror poor K's efforts in Kafka's "Trial" to find out the contents of his judges' notebooks: the result would be blank pages.

The cynics have a point. The Balladur government, in its rush to grant independence to the Bank of France, has left the council largely insulated from the type of normal pressures which would, in an open society, lead to changes in policy. Members have not had to face questions from any parliamentary committee. Nor do they publish minutes of meetings. They are not subject to US-type freedom of information legislation. The Bank of France's monthly bulletin remains bland, offering no insights to compensate for secrecy elsewhere.

All this illustrates that liberal ideology was hardly a big influence on Mr Balladur's decision to give priority to central bank independence. Rather, the driving idea was that independence would boost the credibility of France's anti-inflation policy. France would thereby enjoy the benefits of lower interest rates and an even harder currency. This hypothesis is now in doubt. French bond yields have risen by more than 1 percentage point in the three months since the council started work, whereas the rise in German rates has been only 0.70 point.

In view of the recent history of error in German monetary policy, could France not aim to do better?

So long as independence means that the central bank is free to follow a policy of imitating every Bundesbank move, in splendid insulation from domestic political pressure, there is little prospect of any gain. The French financial markets and macroeconomy will remain vulnerable to monetary and fiscal shock from Germany. At best the credibility of French monetary stability can be no greater than Germany's. Yet in view of the recent history of error in German monetary policy, could France not aim to do better? Achieving a higher monetary standard of performance than Germany would offer France the best long-term route to lower interest rates.

Unless the council is soon forced away from dependence on the Bundesbank, France could become a case study in how not to grant independence to a central bank. A failure of the French economy to recover significantly later this year might turn the council into a scapegoat in the presidential election campaign.

Perhaps there is still an opportunity for the Balladur government to prompt a change in course. Legally, the French government retains responsibility for exchange rate policy. Mr Balladur could instruct the council that a stable franc against the D-Mark is no longer a central aim. Paris needs only to drop hints that exchange rate stability is less important that other economic objectives. The franc/D-Mark rate would then fall.

An end to the stable franc policy could also come irrespective of Mr Balladur's wishes. The possibility that his rival, Mr Jacques Chirac, may occupy the Elysée Palace next spring could act as a catalyst for a weaker franc.

The franc is poised in Humpty-Dumpty fashion just above its old support level of FFr3.43. If it is knocked off the wall again, the French and German governments are unlikely to send in a joint rescue force. Such a fatal accident would indeed be for the best. A floating franc would not end the need to co-operate with the Bundesbank. It would, however, provide France with the best opportunity for constructing a domestic anchor for monetary policy that reconciled central bank independence with genuine economic liberalism.

Brendan Brown

The author is head of research, Mitsubishi Finance International

OBSERVER

Historically challenged

■ In terms of sporting disasters, the cancellation of England's friendly football match with the Germans does not rank with last year's Grand National fiasco. But someone deserves a red card.

When did the Football Association first wake up to the fact that the match fell on the anniversary of Adolf Hitler's birth? Seemingly, no one there knows much about history – which is a mite surprising given the age of some FA members. If the organisers of today's annual Anglo-German Königswinter conference had invited along the odd FA official, this sort of mistake might have been prevented.

Meanwhile, the German football federation does not emerge from the affair any better. It talked tough about wanting the game to go on, presumably in the hope that the cowardly Brits would cancel it.

As for Terry Venables, new manager of the England team, he's lost the chance to make his mark. The last time there was as big a fuss over a match (1938), England beat the Germans 6-3 ... and went on to win the war.

Paying the piper

■ More from the "do what I say, not what I do" school of financial scrupulousness. The Accounting Standards Board, which preaches the need for upstanding financial reporting from companies, has been a bit sparing with the concept of full and frank disclosure in its own annual accounts.

For a start, no indication of the remuneration of David Tweedie, its chairman.

Ringing silence also on the dosh dished out to remaining board members, who determine new guidelines – including an imminent one on executive share options. The reason is a little piece of cunning accounting suggested by the board's advisers. The only true legal director is a corporate entity, the Financial Reporting Council.

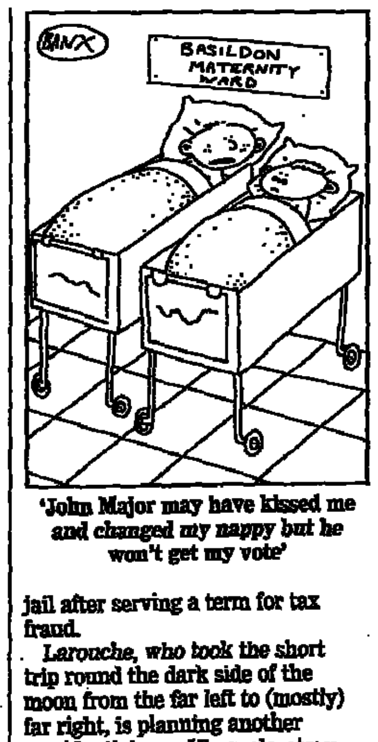
Thus none of the board members is a member of the board at all.

Mr Who

■ How the mighty have fallen. The latest issue of the AEEU journal carries an interview with Glenys Kinnock on "Europe, politics and being married to an MP".

United in defence

■ Bill Clinton can do with all the help he can get in defusing the Whitewater row. But even he might balk at his newest defender – Lyndon Larouche, the political extremist and conspiracy merchant not long released from a Virginia jail after serving a term for tax fraud.



'John Major may have kissed me and changed my nappy but he won't get my vote'

Larouche, who took the short trip round the dark side of the moon from the far left to (mostly) far right, is planning another presidential run. His exploratory campaign organisation goes by the wonderful title of The Committee to Reverse the Accelerating Global Economic and Strategic Crisis.

Whitewater, according to the CRAGESC gospel, is, of course, all a plot by British intelligence and others intent on destabilising the US presidency. Active co-conspirators include Conrad Black and his media empire, Henry Kissinger and those responsible for the Hebron mosque massacre.

Larouche, who used to list the Queen of England and anyone named Rockefeller among the plotters, claims that he and Clinton share a lot of the same enemies.

Turkish front

■ Aysegul Nadir, divorced twice from fugitive business tycoon Asil Nadir, is not known for her discretion.

The former beauty queen is using her charms via a telephone hotline to raise money for young Turkish patriots fighting in the armed forces against the Kurds. Donations are to be sent to account number 25440 at an Istanbul branch of Impexbank.

Isn't this the bank her ex-hubby once owned and allegedly used to channel Polly Peck funds into his personal and private business activities?

Slotted out

■ Some 67 per cent of Americans approve of legalised gambling, according to a survey published yesterday. Unfortunately, however, they do not live in Missouri, where ornery southerners have voted down a constitutional amendment to legalise all sorts of riverboat gambling.

Riverboat casinos are big business on the Mississippi. States encourage them because of the money and jobs they bring; but paradoxically, opposition to gambling is stronger in the traditional south than almost anywhere else in the US.

Yesterday's referendum result will leave riverboat casino operators free to offer games of skill, like poker and blackjack, but not slot machines where the real money is made.

No doubt the riverboats will be slipping their moorings and floating over to the opposite bank of the river – in the state of Illinois.

With nail and eye

■ South Africa's courageous press has extended the frontiers of freedom.

The latest issue of Scope, a monthly magazine, boasts "SA's first full-frontal nude pin-up".

The breakthrough is the result of an ingenious circumvention of censorship regulations. What the magazine calls "the naughty bits" on the centrefold female baring almost all are concealed by an overprinted silver fig-leaf.

Readers are told it can be removed "by rubbing it carefully with a fingernail". If what lies underneath might offend, "Don't touch the fig-leaf," it sternly warns. "Welcome to the world of participatory democracy," says Scope's trailblazing editor, David Mullany.

FINANCIAL TIMES
Thursday April 7 1994

China sounds warning note on deterioration of state industry

By Tony Walker in Beijing

China sounded the alarm yesterday over rising unemployment, growing industrial unrest and the deteriorating health of state industry, which is under pressure in the transition to a market economy.

Commentaries in the People's Daily – the Communist party newspaper – and the Economic Daily drew attention to potential instability in China's cities where state enterprises are undergoing a painful transformation.

Alarmist references in the official press to China's economic problems coincide with indications that the country may be entering an uncertain period, with fresh reports about the deteriorating health of senior leader Deng Xiaoping. "This year and next year the employment situation will be extremely grim," said the People's Daily in an unusually frank reference to looming problems in a politically sensitive area. The Economic Daily also displayed unusual candour in referring to the plight of the state sector which it said would register little or no growth this year due to "lack of funds and sluggish sales".

Western officials in Beijing wonder whether the fresh detention of Mr Wei Jingsheng, China's most prominent dissident, on suspicion of commiting "new crimes" might be connected with internal party struggles. The fate of dissidents has in the past been tied to conflict between party moderates and hardliners.

Confirmation of pressures on the once heavily subsidised state sector came with a report yesterday that a Shanghai textile company had become the city's first state enterprise to file for bankruptcy.

Wen Wei Po, a pro-Beijing Hong Kong daily, reported that the Shanghai Number Two Weave Band factory had made the move last month. It blamed bad management, accumulated debts and removal of subsidies.

State enterprises throughout China face similar problems. In industrial strongholds like Wuhan in central China and Harbin in the north-east, unemployment is rising rapidly and companies starved of credit are barely surviving. Disaffected workers in state enterprises across China have engaged in unprecedented levels of unrest in the past year.

Official unemployment in urban areas is 2.6 per cent, but this vastly understates the extent of the problem. Some estimates put urban unemployment at about 20 per cent of the workforce.

People's Daily quoted Mr Li Boyong, the labour minister, as saying that China was "faced with unprecedented challenges in deploying all the jobless".

China is grappling with a huge surplus of rural labourers numbering between 130m and 200m. Millions are seeking employment in the cities, adding to pressures on hard-pressed municipal authorities.

Balladur visits Beijing, Page 5

Leading liberal justice of Supreme Court to retire

By Jurek Martin in Washington

Justice Harry Blackmun, the US Supreme Court's leading liberal, yesterday announced his retirement at the end of the court's summer term, giving President Bill Clinton the chance to name his successor.

Mr Clinton yesterday gave a brief and moving tribute to Justice Blackmun, famous for his ruling upholding abortion rights. But he gave no clues as to who would get his second nomination to the bench since coming to office. "This is Justice Blackmun's day," Mr Clinton said.

The president is thought likely to pick someone close to Justice Blackmun's views, meaning little immediate change in the political balance of the Court. The prospect of rightwing domination of the bench, which seemed on the cards during the Reagan and Bush presidencies, has receded.

But the delicate mechanisms of the bench may persuade Mr Clinton to seek a nominee more inclined to conciliation and consensus than the independent-minded Justice Blackmun, who took pride in principled dissent.

Mr Blackmun was appointed to the bench by President Richard Nixon in 1970 as a safe alternative following the failure of two more conservative nominees to pass muster.

However, a lifelong Republican leavened by the progressive traditions of his native Minnesota, Justice Blackmun quickly emerged as a liberal bulwark. On the current Court he is aligned with Justice John Paul Stevens, another Republican appointee, with the middle ground occupied by Justices Ruth Bader Ginsburg, Sandra Day O'Connor, Anthony Kennedy and David Souter and the right by Chief Justice William Rehnquist and Justices Antonin Scalia and Clarence Thomas.

Justice Blackmun was the principal author in 1973 of the 7-2 Roe v Wade ruling protecting the right to abortion. Unapologetic to the end for this ruling, he simply said yesterday he thought it "a necessary step on the road to the full emancipation of women".

He also remained an adamant opponent of capital punishment, unconvinced that it served as a deterrent. But he frequently conceded that he was swimming against a national tide, with two-thirds of the states now employing the death penalty (proudly, he would point out that Minnesota had legally executed nobody in more than 80 years).

"It hasn't been much fun on most occasions," Justice Blackmun wryly noted of his frequent status in the Court's minority. But Mr Clinton, an old acquaintance, saw it otherwise: "Justice has not only been his title, it has been his guiding light."

Senator George Mitchell of Maine and Mr Bruce Babbitt, interior secretary, are among the leading candidates to replace Justice Blackmun. Other candidates include three federal judges – Mr Jose Cabranes from Connecticut, who, if selected, would be the first Hispanic justice, Mr Stephen Breyer from Massachusetts and Mr Richard Arnold from Arkansas. All five were mentioned in last year's search for a Supreme Court nominee, a position filled by Mrs Ginsburg.

Interest centres on Senator Mitchell, the Democratic majority leader who has announced that he will not seek re-election this November. The problem facing the president is his need for Mr Mitchell's help this year in shepherding his domestic legislation through Congress, above all the healthcare reform bill.

Gen Rose to mediate in Bosnian peace talks

By Our Foreign Staff

General Sir Michael Rose, the UN military commander in Bosnia, yesterday agreed to a Bosnian Serb request to arrange talks with their Moslem enemies on an overall ceasefire.

Gen Rose, speaking after talks with the Bosnian Serb leader, Mr Radovan Karadzic and military chief, General Ratko Mladic, said the Serbs had pledged to stop shelling the embattled Moslem enclave of Gorazde.

He cancelled a planned visit there yesterday.

At least 64 people have been killed and 300 wounded in a week-long upsurge of fighting around the enclave, one of three so-called UN "safe areas" for Moslems in a largely Serb-controlled region of eastern Bosnia.

The British officer played down the cancellation of his own trip to Gorazde. "If they [the Serbs] don't want us to go there now, then we have to accept that," he said. However, the Serbs did allow some UN monitors into the enclave.

Gen Rose appeared to accept the Serb contention that the recent push forward by their forces around Gorazde – who have come within a few miles of its centre, but not in sight of capturing the enclave – was in response to Moslem advances in other parts of Bosnia.

The Serbian request for talks and the UN's willingness to treat the request as sincere, boosted hopes that the "rolling ceasefire" process could acquire fresh momentum.

However, diplomats said further progress would depend on consistent pressure from Washington and Moscow, the architects of the Sarajevo ceasefire and the federation pact between Bosnian Moslems and Croats.

N Korea issues warning to Japan

Continued from Page 1

Korean nuclear weapon would never be used against South Korea or the US.

The statements could increase pressure on the Japanese government to take a tougher line against North Korea over the issue of nuclear site inspections. They will also provide support for Japanese officials arguing that the country must boost its defence capability.

North Korea has already developed a missile, the Rodong-I, that can reach most of Japan, although military analysts believe that Pyongyang does not yet have the capability of building a sophisticated nuclear warhead small enough to fit on the missile.

But the ambassador's comments appear to confirm some analysts' fears that North Korea might use the Japanese fast-breeder reactor, which generates plutonium, as a pretext for proceeding with its own production of plutonium, used in the making of nuclear weapons.

It was the second North Korean warning this week that it might be ready to resume plutonium production.

Some analysts in Seoul believe Mr Cha's comments might be an attempt to allay South Korea's fears about the development of a North Korean nuclear weapon by appealing to the traditional Korean dislike of Japan.

North Korea has come under pressure to open up its nuclear facilities to international nuclear inspections to dispel suspicions that it is developing weapons.

THE LEX COLUMN

Storms over the Channel

Eurotunnel's broadside against a luckless corporate financier, who talked indiscreetly about its forthcoming rights issue, will enhance Swiss Bank Corporation's maverick reputation. Yet despite the ticking-off, SBC will retain an important role in Eurotunnel's fund-raising. Its agreement to sub-underwrite Transmanche Link's portion of the rights issue helped cement a deal between contractor and builder. SBC is also likely to play a big role in the global distribution of shares.

SBC has trodden on the toes of the City establishment before. It gate-crashed BZW's enhanced scrip dividend party when it perceived the margins were too fat and launched a competitive auction for the rump of Trafalgar House's rights issue. At a general level, it would be a welcome development if SBC could succeed in its attempts to inject some fresh thinking into the cosy world of underwriting. After all, real competition is likely to provide a more effective deterrent against the threat of cartels than strictures from the Office of Fair Trading.

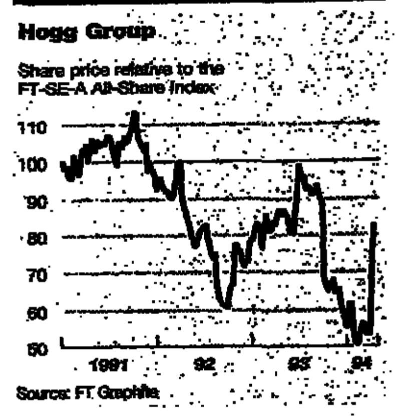
By applying its expertise in derivatives markets to assess the volatility of a company's shares, SBC claims it can judge whether the standard 2 per cent underwriting fee is appropriate to the risk. Such an approach has advantages for favoured clients, which are guaranteed their money at less cost. The danger is that by squeezing the fees on the good deals, SBC may upset the institutions on which it must ultimately rely. In the interests of self-preservation, most financial advisers have chosen to side with the fund managers who have the money rather than the companies which need it.

Oil

Hedge funds are rapidly gaining the reputation and popularity of medieval witches. As a consequence, they are ritually burnt at the stake every time some ill befalls the global capital markets. The latest incarnation is the unexpected rise in the oil price in recent days. Crudely put, since other commodity prices have risen and oil has lagged badly, it is seen as an obvious target for speculative funds.

The interesting question, however, is whether the hedge funds are being smarter or slower than conventional oil market traders. The second quarter often sees softening oil prices as demand slips back after the winter. Opec's failure to rein back production – partly at Saudi Arabia's behest –

FT-SE Index: 3131.5 (+15.3)



Source: FT Graphite

shows the cartel's weakness and inability to police quotas. Indeed, the Saudis seem determined to expand their market share at the expense of price. There are also the medium-term fears of the return of Iraq to the market and the rejuvenation of Russian oil fields with western technology. The rapid expansion of natural gas threatens some of oil's traditional markets.

Yet the slip in the oil price in the last few months happened despite a near-balance between supply and demand. Stocks were drawn down heavily in the first quarter to meet cold weather demands in the US. Outside Saudi Arabia, Opec has little slack to expand production in the short term. There may thus be some fundamental support for oil prices later, but doubtless the hedge funds will not hang around to wait for it.

Groupe Suez

The looming sale by Groupe Suez of its Victoire insurance subsidiary does little to lessen the confusion surrounding its strategic direction. This is not because a company anxious to maintain a profile in financial services is shedding an insurance business. Suez lacks the retail banking network that is needed to distribute *bancassurance* products, and Victoire is a less interesting investment since its German business was sold last year. Without Victoire, though, the Suez portfolio, which ranges from banking to hotels and steel, will look odder than before.

Recent asset sales appear driven primarily by the need to offset losses on property lending. Exceptional gains of FFr4.4bn from asset sales last year more than accounted for net profits of FFr1.6bn. Provisions should be lower this year but, given the exposure of Suez to the still weak commercial property market, the improvement may be slow. Victoire may thus be the most convenient piece of family silver to put up for sale.

But Suez is also raising resources to go on the acquisition trail. Its industrial stakes may give it clout in investment banking, but such an approach depends heavily on an ability to make sensible purchases. Suez will be judged as much by what it buys as what it sells. Given the discount of some 30 per cent to net assets at which its shares are trading, the equity market is not particularly confident. If there are resources to spare, investors might prefer to have them back.

Hogg Group

The prospect of a bid for Hogg Group has at least pushed the shares above 1990's 150p rights price. While Hogg is not the only insurance broker to fall on hard times, its record since the rights issue is hardly edifying. Problems in US retail broking and fine art insurance were behind the most recent disappointments. Given that troubled history, a multiple of around 25 times this year's forecast earnings at yesterday's closing price might look expensive. But potential buyers – including HSBC Holdings with a 6 per cent stake – must fancy their chances of squeezing substantially more out of the business than the current management.

Combining Hogg's US retail broking offices with a larger network, for example, could transform the outlook. That logic might appeal to an established US broker with an eye on the UK market. Even after yesterday's rise, Hogg's market capitalisation is only a shade higher than its annual broking revenue. On that measure, it is not yet expensive. If HSBC is preparing to make a full bid, it must expect some competition.

Sadly for shareholders in other troubled insurance brokers, Hogg looks like a special case. A high proportion of retail business sold through regional offices makes Hogg an unusually predictable target. Any potential bidder for Steel Burrell Jones – whose shares rose in sympathy with Hogg yesterday – would run the risk that its prized London market brokers would jump ship. The long awaited shake-out among insurance brokers is still not at hand.

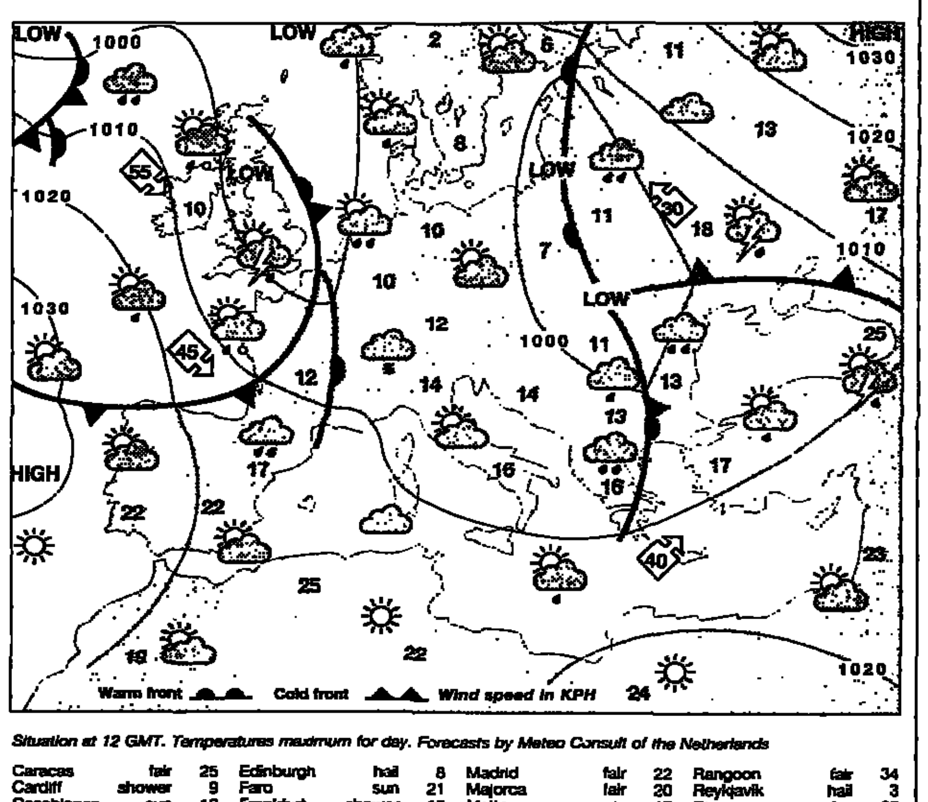
FT WEATHER GUIDE

Europe today

Southern Spain and Portugal, central Italy and Poland will be mainly dry and sunny. Elsewhere it will be unsettled and cool. France will be cloudy with outbreaks of rain while the Benelux and northern Spain will be showery. The UK will have a lot of showers, some with hail and thunder,and there will be snow on the hills. Snow is also expected in the Swiss and French Alps. A few showers will develop over southern Italy and in Greece. It will rain in the Balkans, western Russia and Finland. Western Scandinavia will have broken cloud with wintry showers.

Five-day forecast

Another low pressure system developing near Iceland will move south-east, reaching the North Sea during the weekend. It will cause showers in western and central Europe, some with hail and sleet, and snow on higher ground. Spain will remain sunny. The northern Balkans will stay unsettled with showers and thunder storms.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	26
Accra	thund	32
Algiers	sun	23
Amsterdam	shower	10
Athens	shower	16
Atlanta	sun	18
B. Aires	shower	14
B.ham	shower	9
Bangkok	fair	37
Barcelona	fair	20
Beijing	fair	18
Belfast	shower	9
Belgrade	rain	9
Berlin	fair	11
Bermuda	fair	24
Bogota	fair	21
Bombay	fair	31
Brussels	shower	10
Budapest	shower	11
C.hagen	fair	8
Cairo	fair	28
Cape Town	fair	24
Caracas	fair	25
Cardiff	shower	9
Casablanca	sun	19
Chicago	fair	11
Cologne	fair	13
D' Salaam	fair	31
Dakar	sun	32
Dallas	sun	24
Delhi	sun	32
Dubai	fair	29
Dublin	fair	10
Dubrovnik	fair	14
Edinburgh	hail	8
Faro	sun	21
Frankfurt	shower	12
Geneva	rain	10
Gibraltar	sun	23
Glasgow	sleet	9
Hamburg	fair	11
Helsinki	rain	6
Hong Kong	cloudy	29
Honolulu	fair	28
Istanbul	thund	15
Jersey	shower	10
Karachi	fair	31
Kuwait	sun	32
L. Angeles	fair	19
Las Palmas	sun	21
Lima	fair	24
Lisbon	sun	20
London	thund	10
Lux.bourg	hail	9
Lyon	rain	14
Madeira	sun	19
Madrid	fair	22
Majorca	fair	20
Malta	rain	17
Manchester	hail	9
Manila	thund	30
Melbourne	fair	25
Mexico City	shower	25
Miami	fair	30
Milan	sun	17
Montreal	snow	5
Moscow	cloudy	13
Munich	shower	11
Nairobi	thund	28
Naples	shower	18
Nassau	fair	29
New York	shower	13
Nice	shower	16
Nicosia	fair	23
Oslo	shower	7
Paris	rain	12
Perth	fair	27
Prague	fair	10
Rangoon	fair	34
Reykjavik	hail	3
Rio	fair	26
Rome	shower	15
S. Frsco	cloudy	16
Seoul	fair	24
Singapore	drzzl	31
Stockholm	cloudy	8
Strasbourg	shower	12
Sydney	thund	26
Tangier	sun	18
Tel Aviv	fair	25
Tokyo	drzzl	18
Toronto	fair	5
Vancouver	fair	12
Venice	fair	13
Vienna	fair	14
Warsaw	rain	7
Washington	windy	15
Wellington	fair	16
Winnipeg	fair	5
Zurich	shower	11

FINANCIAL TIMES
COMPANIES & MARKETS

Thursday April 7 1994

IN BRIEF

CarnaudMetalbox falls 14%

CarnaudMetalbox, the Anglo-French packaging group, announced a 14 per cent fall in net profits to FFr835m ($143.22m) for 1993 and expressed caution about prospects for the current year. Page 16

Creditors back US airline plan
America West Airlines, the last big US airline still in Chapter 11 bankruptcy protection, has won its creditors' agreement to an amended reorganisation plan aimed at bringing the company out of bankruptcy by early autumn. Page 17

Corning matches expectations
Corning, the US glass and high technology manufacturer, matched market expectations in the first quarter with a 12 per cent rise in underlying earnings per share. Page 17

US oil industry wakes up to low prices
The US oil industry is only now coming to grips with the prospect of a prolonged period of relatively low oil prices, says Mr Larry Fuller, chairman and chief executive of Amoco, the fifth-largest American oil company. Page 18

Strong growth for hongs
Hong Kong's hongs all hold respectable land banks at a time when demand is far outstripping supply, and last year saw strong profits growth for the conglomerates. Page 19

Customers lift restaurant group
City Centre Restaurants, the UK group which owns the Deep Pan Pizza and Garfunkels chains, lifted profits last year almost 15 per cent, after an increase in customers. Page 21

Siebe to acquire Swedish valve maker

Siebe, the international controls and engineering group, is to acquire the NAF group, Sweden's main valve and valve systems manufacturer, for £21m ($31m), making it Europe's leading control valve producer. Mr Allen Yurko (left), chief executive, described the acquisition as a "perfect fit" from a geographical, product, and market sector point of view. Page 21

Indices to include Rothmans and Vendôme
Rothmans and Vendôme Luxury Group will be included in UK stock market indices next year under a rule approved yesterday by the FT-SE Actuaries Share Indices Committee. Page 21

Trial by fire in Argentina
Argentina has been one of the worst performing Latin American equity markets so far this year, living through its first trial by fire in international financial markets since making the currency convertible and adopting a fixed exchange rate three years ago. Back Page

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Asko Prf	940	+	40
Bayer	393.1	+	11.3
Dresdner Bank	413.5	+	9.3
Hochtief	1092	+	32
KHD	144.9	+	5.1
Mannesmann	432.5	+	13.5

NEW YORK ($)			
Rises			
JP Morgan	61¼	+	1⅞
Falls			
Gen Electric	97	–	1⅞
Philip Morris	47⅞	–	1
Promus	37⅝	–	3¼
Union Carbide	24⅛	–	1
Utd Tech	64⅛	–	1¼

New York prices at 12.30.

PARIS (FFr)			
Rises			
Dollfus Mieg Cie	403	+	14.2
Elf Aquitaine	394.4	+	16.4
Legrand	6330	+	240
Paris Reescompt	485	+	15.3
Thomson CSF	178.5	+	9.3
Falls			
Ecco	855	–	29

TOKYO (Yen)			
Rises			
Daimaru	820	+	40
Hino Motors	869	+	55
Kawasaki Kisen	347	+	17
Makino Milling	729	+	37
Nippon Paint	680	+	39
Nissan Diesel	478	+	34

LONDON (Pence)			
Rises			
AMEC	140	+	7
Air London	78	+	6
BSM	181	+	6
Blenheim	381	+	26
Bluebird Toys	728	+	20
Carlton Comm	880	+	20
CentreGold	126	+	9
Goldsborough	156	+	7
Hogg Group	205	+	23
Hunterprint	25	+	3
Johnson Fry	278	+	13
Pacer Systems	81	+	9
RMC	969	+	27
Rhino	38	+	5
Rodime	30½	+	3
Sotheby's A	1200	+	57
Tarmac	178	+	6
Trafficmaster	165	+	10
Warburg (SG)	778	+	21
Falls			
Euro Disney	363	–	10
Lloyds Bank	585	–	12
National Power	458	–	11
PowerGen	519	–	19
Smith (WH) A	534	–	15

Alcatel optimistic despite forecast of profits fall

By John Ridding in Paris

Mr Pierre Suard, chairman of Alcatel Alsthom, the French energy, telecommunications and transport group, has confirmed his forecast of a fall of between 10 and 20 per cent in net profits this year, but expressed optimism about the medium and long term.

Announcing stable net profits of FFr7.06bn ($1.2bn) for 1993, Mr Suard said the group had the technological and international strength to resume profits growth, although the timing of recovery would be determined by economic conditions in its main European markets.

"We are seeing the first encouraging signs arising from our technological efforts," he said. Alcatel was well positioned to take advantage of opportunities in multimedia and had maintained its dominance in the markets for high-speed trains and communications cables.

Mr Suard was confident that a FFr15bn contract to supply high-speed trains to South Korea would be finalised shortly. The group is also expected to regain control of Framatome, the state-owned nuclear power station group which is in the process of privatisation.

For 1994, however, Mr Suard forecast a difficult year, saying the weakness of the German, Italian and Spanish telecoms markets and the impact of price competition would combine with the group's high research and development spending to reduce profits.

Mr Suard described the 1993 performance as "very favourable given the economic environment". Net debts were cut from FFr20.52bn to FFr7.25bn, largely because of cashflow of FFr16.61bn. Earlier this month, the group announced a FFr5bn convertible bond issue.

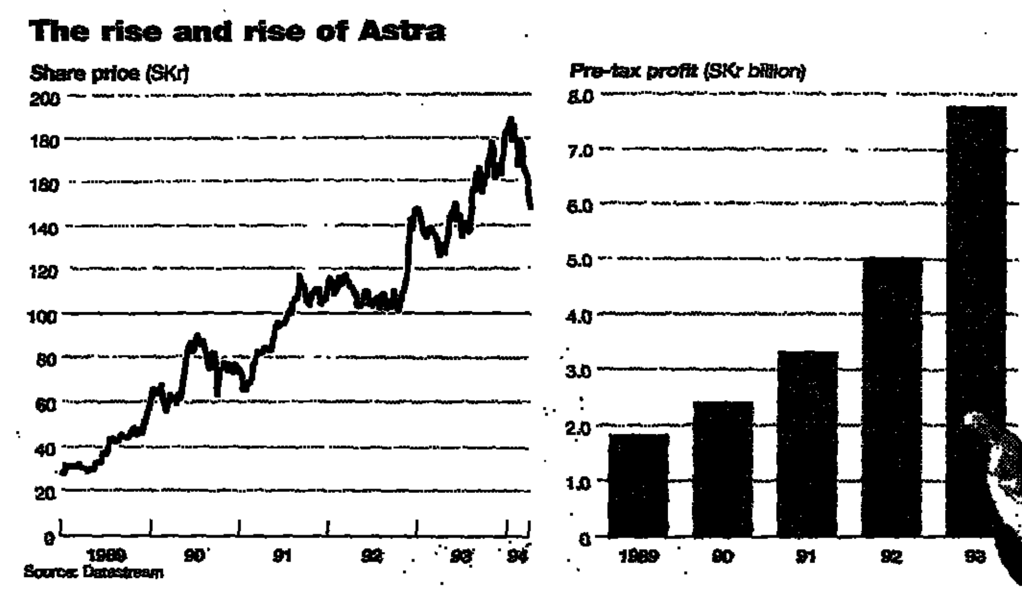
Sales slipped from FFr161.68bn to FFr156.33bn. Europe accounted for 72 per cent of sales, while Asia contributed 11 per cent. All the group's divisions suffered lower sales, except for batteries.

Operating profits fell from FFr9.5bn to FFr8.37bn in the telecoms division, and from FFr2.67bn to FFr2.25bn in the cable operations. GEC-Alsthom, however, the transport and engineering company jointly owned with GEC of the UK, raised operating profits from FFr3.58bn to FFr4.17bn.

Net income was also constrained by a FFr2.5bn restructuring charge, compared with a FFr3.2bn charge in 1992. R&D spending inched ahead to FFr15.2bn. A dividend of FFr15 is proposed, compared with FFr14.50.

Astra takes over Japanese drugs venture

The rise and rise of Astra



Source: Datastream

Håkan Mogren president

By Christopher Brown-Humes in Stockholm and Emiko Terazono in Tokyo

Astra, the Swedish drugs group, has finalised a SKr1.8bn ($230m) deal with its Japanese partner Fujisawa, strengthening its position in the world's second largest pharmaceuticals market.

The agreement lifts Astra's stake in Fujisawa-Astra to 90 per cent, from 51 per cent, and gives it full management control.

The Swedish group will also buy back the product rights for its local anaesthetics business from the Japanese group. Fujisawa will retain 10 per cent of the venture and support it with manufacturing and distribution services.

Astra, one of the world's fastest growing pharmaceuticals companies, said the move was designed to bolster the position of its anti-asthma drugs in the Japanese market in the second half of the 1990s. "Our partners were reluctant to invest in the development of new inhaled anti-inflammatory asthma agents such as Pulmicort," it stated.

Pulmicort, Astra's second biggest selling drug with 1993 sales of SKr2.96bn, has yet to be launched on the Japanese market. The drug, with its Turbuhaler inhaling device, will be filed for approval in Japan next year, and other anti-asthma products will be filed later.

Mr Hakan Mogren, Astra president, said: "Astra has substantially increased its influence over Fujisawa-Astra. We will now transfer local clinical research on Pumicort Turbuhaler and other anti-asthma agents to this company."

Astra will continue to buy its local anaesthetics from Fujisawa, but by gaining the marketing rights it will get a higher share of profits.

Sales through Fujisawa-Astra amounted to SKr1.9bn last year. The figure includes two-thirds of Astra's Japanese sales of Losec, the anti-ulcer agent which is the world's second biggest ulcer drug after Glaxo's Zantac. Losec has between 5 and 6 per cent of the Japanese market.

Analysts said the deal with Fujisawa would give Astra greater control over its Japanese operations, but added that it might be moderately dilutive in the short-term.

Martin Dickson looks at the implications of two abandoned US telecommunications deals

Smash-up delay on 'information super-highway'

With two juggernauts lying smashed at its side, the road to America's "information super-highway" is looking increasingly bumpy.

On Tuesday, Southwestern Bell, the large Texas-based local telecommunications group, announced that it was abandoning a plan to invest $1.6bn for a 40 per cent stake in the cable television operations of Cox Enterprises, a private media group.

Just six weeks ago Bell Atlantic, the Philadelphia-based phone group, and Tele-Communications Inc (TCI), the largest US cable company, said they were calling off a $22bn merger which Mr Raymond Smith, Bell Atlantic's chairman, had once hailed as "a model for communications companies in the next century".

The idea was that large telecoms and cable companies, which are potential rivals in developing the information superhighway – a network offering advanced, interactive, multi-media entertainment and services – would do better to form partnerships to pool their respective expertise. Cable companies are good at providing entertainment services, while telephone companies have much greater expertise at routing two-way communications traffic.

The collapse of the deals suggests that the introduction of multi-media services will proceed more slowly than its most visionary proponents have been suggesting; and will not involve many full-blown mergers between telephone companies and large cable networks.

That said, America's leading phone and cable companies remain strongly committed to pouring billions of dollars into the development of an information superhighway, even though it remains far from clear how substantial the financial payback from this investment will be.

Both Bell Atlantic and Southwestern Bell have blamed the unravelling of their deals on the Federal Communications Commission, the government agency which oversees the communications sector, and on 1992 legislation which ordered tighter regulation of cable TV prices after public criticism of the escalating rates charged by these essentially monopolistic companies.

In February, the FCC, under its new chairman, Mr Reed Hundt (a Clinton administration appointee) ordered cable companies to cut by 7 per cent the charges to consumers for a basic package of television channels. Bell Atlantic and Southwestern Bell say the resulting reduction in cable companies' cashflow undermines the financial assumptions on which their deals were based.

Rate re-regulation has certainly increased financial uncertainty in the cable industry, and diminished the immediate financial attractions of the sector to the local telephone companies, which are themselves heavily regulated and want to get into less controlled businesses.

However, analysts suspect that there is more to the collapse of the two deals than can be laid at the FCC's door. Certainly, in the case of Bell Atlantic/TCI, sharp differences in culture between the staid telephone company and the free-wheeling cable operator appear to have played a role, as well as Wall Street anxiety over the deal's cost to Bell Atlantic.

If the information superhighway offers telephone companies as glittering a financial future as industry leaders claim, should not they be willing to ride out a short-term dip in cable cashflow?

The problem is that no one knows just how profitable, and when, multi-media services will prove for the companies that provide them. It is far from certain that consumers will actually want the services, ranging from movies on demand to inter-active home shopping and computer games.

These factors suggest that while telephone companies will continue to press ahead with capital investment in multi-media networks of their own, they will proceed more gingerly with involvement in the cable industry, making either relatively small acquisitions in areas of the country where they do not offer a phone service, or joint ventures.

One such route has been pioneered by Southwestern Bell, which in January became the first regional phone company to buy a cable system outright, acquiring two systems in the suburbs of Washington DC for $650m.

Despite Southwestern's complaints this week about the cable industry's cash flow, it says it is very pleased with the Washington operations because they are in wealthy areas where the number of homes taking a cable service is high.

Another route was pioneered last year by US West, the Denver-based phone company, which spent $2.5bn acquiring a 23 per cent stake in Time Warner's cable television and entertainment business.

Time Warner is planning to roll out a much-vaunted multimedia field trial to 4,000 homes in Florida, but the launch date has been postponed from this month to the autumn because of technical difficulties – a delay which raises additional questions about the speed at which the information highway will be built.

Dresdner Bank may unveil plans to raise capital in US

By Christopher Parkes in Frankfurt

Dresdner Bank, Germany's second biggest private sector bank, is expected to announce plans tomorrow to raise funds through a private placing of American Depositary Receipts in the US. Daimler-Benz, the country's largest industrial concern, may also unveil further details of its previously announced capital raising after today's meeting of its supervisory board.

According to German newspapers, Dresdner will be the first German financial institution to take the US route, aiming to raise around DM1.3bn ($780m). Bank officials said any such measures would be unveiled by Mr Jürgen Sarrazin, chairman, at tomorrow's press conference to review last year's results. He is also expected to announce an increase of at least DM1 on 1992's DM12 dividend.

Full details of plans at Daimler, which is expected to cut its payout, are likely to come at its press conference next Tuesday. Mr Gerhard Liesen, finance director, is aiming for a capital increase to bring in around DM3bn.

While the mooted Dresdner ADR placing will not involve the bank in greater financial disclosure, as was the case with Daimler which was granted a full listing in New York last year, the plan underlines growing eagerness among German companies to gain wider access to the world's largest capital market.

There is a growing list of German contenders for investors' capital, issuing new shares on the back of high stock market valuations. Car groups BMW and Porsche have both unveiled plans for rights issues.

Analysts have raised their expectations of German banks' results after Deutsche Bank's 16 per cent increase in 1993 operating earnings. One observer estimated that Dresdner could announce a 25 per cent improvement at the operating level. Expectations of Daimler are far lower – a DM2bn loss was made in the first nine months, according to US accounting rules. Mr Edzard Reuter, chairman, has forecast a net profit of DM600m for the full year, according to German rules.

SBC causes Eurotunnel stir

By Charles Batchelor and Maggie Urry in London

A row involving Eurotunnel, its financial advisers and Swiss Bank Corporation (SBC) took a surprise turn yesterday with a ban on a senior SBC executive taking part in Eurotunnel's proposed £600m-£750m ($876m-$1.1bn) rights issue.

SBC is financial adviser to Transmanche Link (TML), the construction consortium which built the Channel tunnel. The dispute over SBC's role in the rights issue threatens to take the gloss off the payments settlement reached on Tuesday between Eurotunnel and TML.

Sir Alastair Morton, co-chairman of Eurotunnel, which will operate trains through the tunnel, announced that SBC had confirmed that Mr Brian Keelan, a senior corporate finance executive, would play no part in the underwriting.

Mr Keelan had aroused Sir Alastair's wrath by revealing that the rights issue might be as large as £750m. He had also irritated Eurotunnel's advisers, Morgan Grenfell, Banque Indosuez and SG Warburg Securities by appearing to exaggerate SBC's role in the rights issue. Eurotunnel said yesterday: "comments by Mr Keelan on that issue, its possible timing and underwriting were improper, incorrect and unauthorised."

SBC was keen to play down the involvement of Mr Keelan in the underwriting. He had played a senior role in negotiating the settlement between TML and Eurotunnel, but would not have a part in the underwriting, SBC said.

SBC will still play an important role. As well as handling a £75m share issue to TML and a £52m funding deal linked to warrants, it is expected to be responsible for a quarter of the primary underwriting of the main issue.

But one banker said: "They have used the underwriting of the shares being taken up by TML to push into the transaction and trodden on the toes of Eurotunnel's traditional advisers."

As part of its efforts to expand in the London market, SBC has taken to attacking accepted practices and undercutting rivals, or, as it might argue, brought innovative ideas to a staid system.

Lex, Page 14

CarnaudMetalbox posts 14% decline to FFr835m

By John Ridding in Paris

CarnaudMetalbox, the Anglo-French packaging group, yesterday announced a 14 per cent fall in net profits to FFr835m ($143.23m) for 1993 and expressed caution about prospects for the current year.

Mr Jürgen Hintz, chairman, described 1993 as a tough year. "In half of Europe, currency translations reduced our profits by about 10 per cent compared with 1992. In the other half, packaging markets suffered the worst decline in about 20 years. Pricing pressure was severe everywhere," he said.

Mr Hintz added that pressures on prices and volumes resulting from the impact of recession remained severe. As a result, he said, "we have to remain cautious about projecting any meaningful profit improvement for the year, at this stage". The group decided, however, to maintain the dividend at FFr4 per share.

According to Mr Hintz, the decline in the group's performance in 1993 had been limited by cost-saving measures, restructuring and the benefits of acquisitions. These included Anchor Hocking, a US food packaging group, and food-can companies in Hungary and Finland. In the group's health and beauty division, the group acquired Zeller Plastik, a manufacturer of plastic closures.

The acquisitions represented a 4 per cent contribution to last year's sales of FFr24.34bn, a 2 per cent decline on the 1992 figure. Excluding currency effects, however, sales rose by a similar proportion. The total cost of last year's acquisitions was FFr2.5bn, although the increase in group debts was limited to FFr982m through the disposal of non-strategic businesses and solid cash flow.

Operating profits fell by 16 per cent, or by 10 per cent if currency effects are excluded. CarnaudMetalbox said the decline in profits was entirely the result of particular difficulties in the European beverage cans market, weak demand in Germany and specific problems in Asia.

In the bulk of the group's businesses, accounting for about 75 per cent of turnover, the company said that cost reductions and productivity improvements had compensated for weak market conditions.

SE-Banken sells Swiss unit

By Christopher Brown-Humes in Stockholm

Skandinaviska Enskilda Banken, the leading Swedish commercial bank, has announced the sale of Banque Scandinave en Suisse (BSS) for more than SKr2bn ($250m). The buyer is the Sandoz Family Foundation of Lausanne.

SE-Banken declined to reveal precise terms for the deal, but said it would have a "significant positive" effect on earnings and a "limited positive impact" on its capital ratios.

BSS, a private Swiss bank specialising in fund and asset management, made a SFr22m ($15.2m) profit last year and had total assets of SFr1.3bn as at December 31 1993.

Mr Lars Isacsson, SE-Banken chief financial officer, said the sale was part of the group's programme to concentrate on core activities. Earlier this year the bank sold three subsidiaries within the Finans-Skandic group to GE Capital as part of the strategy.

Mr Isacsson said SE-Banken intended to remain involved in fund and asset management, but the emphasis would be on the Nordic area. "Banque Scandinave en Suisse developed a less Scandinavian flavour," he stated, adding that its importance to the group had diminished as European integration had progressed. The bank intends to retain a private bank in Luxembourg to serve international clients.

SE-Banken has owned a stake in BSS since 1964 when the operation was set up in partnership with other Scandinavian banks. At the start of this year it held 79 per cent of the bank before buying the outstanding shares from the Northern Trust Corp of the US a month ago.

The Sandoz Family Foundation was set up in 1964 to maintain a 10 per cent voting stake in Sandoz, the Swiss pharmaceuticals group.

AP Moller advances to DKr2.91bn

By Hilary Barnes in Copenhagen

AP Moller, the shipping and oil and gas group, increased pre-tax profits to DKr2.91bn ($434m) last year from DKr2.29bn in 1992, while net profits increased to DKr1.98bn from DKr1.53bn.

Turnover at the shipping business, Tankers & Liners in Partnership, rose to DKr24.1bn from DKr19.5bn and net profit to DKr1.45bn from DKr1.05bn. Turnover in Oil and Gas Partnership, which is engaged in production of oil and gas from the Danish area of the North Sea, increased to DKr3.47bn from DKr3.3bn and net profit to DKr134m from DKr127m.

An increase was proposed in the dividends paid by the twin parent companies, D/S Svendborg and D/S 1912, both listed on the Copenhagen Stock Exchange. The dividend from D/S 1912 goes up to 52.5 per cent per DKr1,000 share from 45 per cent, and from D/S Svendborg to 75 per cent from 60 per cent, with the total up at DKr224m from DKr178m.

Group assets increased to DKr43.2bn from DKr38.1bn and equity capital to DKr19.3bn from DKr17.6bn. The preliminary report described the results of Maersk Line, which operates container-carrying services, as satisfactory.

Strategy changes help Cerus reduce loss

By John Ridding

Cerus, the French holding company controlled by Mr Carlo de Benedetti, the Italian industrialist, achieved a sharp reduction in net losses last year, to FFr251m ($43.05m) from FFr1.55bn in 1992

The group said the improved performance reflected its strategy of focusing on industrial activities and cleaning up its finances. Mr de Benedetti said the company was "in a position to prepare for take-off again".

The reduction followed reduced losses at its banking operations and a solid contribution from Valeo, the French vehicle components group in which Cerus holds a 30 per cent stake.

Losses at Duménil Leblé, the group's banking operation, fell to FFr363m from FFr1.34bn. Cerus said that its management had been "re-centred" in France, Luxembourg and Belgium and that the bank's principal risks had been resolved. Cofir, the group's financial operation, contributed profits of FFr26bn, despite difficult conditions in Spain.

A much larger contribution, of FFr206m, came from the group's investment in Valeo, despite the downturn in the European vehicle sector. Cerus described Valeo's prospects as "particularly promising" and said its participation would remain at the centre of the group's strategy.

In addition to curbing group losses, Cerus also achieved a sharp reduction in debts, partly through the sale of assets. Net debts, according to the group, were FFr108m at the end of last year, down from FFr1.45bn at the end of 1992.

● Credit Foncier lifted its gross operating profit by 45 per cent to FFr 3.34bn while the net attributable profit rose 25.4 per cent to FFr 515m during the 12 months to December 31 last year, Reuter reports from Paris. The group's total loan book grew 4 per cent to FFr333bn. Subsidised loans fell 3.5 per cent and outstandings on long-term market sector loans rose 24 per cent.

Sainsbury joins European alliance

By Neil Buckley in London

J. Sainsbury, the UK food retailer, is joining three continental European retailing groups to form a partnership which will be one of Europe's largest retail associations.

Other members of the group, to be known as SEDD, are Esselunga, the family-owned group that is Italy's third largest retailer; Docks de France, one of France's biggest grocery groups; and Delhaize "Le Lion", Belgium's largest supermarket operator.

Mr Michael Morgan, Sainsbury's director of international buying, said the partnership was more than a buying group, but a "multi-functional" alliance. "This will be a strong pan-European association of leading and respected companies, a group that could benefit many people," he said.

"If we go into something like this, we will not be keeping one hand behind our back. There has got to be a relationship of trust and mutual respect."

He said all members would exchange knowledge in areas such as information technology and systems. There may also be co-operation in marketing and distribution. Sainsbury's partners may benefit from its expertise in developing own-label products.

The four groups exert considerable buying power, but Mr Morgan said while buying would be co-ordinated, it would not be centralised.

He added that manufacturers would gain from the partnership, with the opportunity eventually to launch products in four markets simultaneously.

Mr Morgan said the groups, which all retain a strong family influence, were "culturally alike". There were, however, no plans to strengthen the relationship, for example through cross-ownership of shares.

Last year, Sainsbury developed links with Docks de France, which operates the Mammouth hypermarket chain, leading to the decision to formalise the partnership. The UK company and Docks de France is to open a jointly-owned off-licence in Calais at the end of this month.

As growth opportunities within home markets diminish, analysts expect more retailers to be pushed into alliances. Argyll, the UK's third-largest grocer, is already a member of the European Retail Alliance, with Ahold of the Netherlands and France's Casino.

BNL held back by provisions

By Andrew Hill in Milan

Consolidated net group profit at Banca Nazionale del Lavoro, the Italian Treasury-owned bank, dropped to L65bn in 1993 ($38.4m) from L96bn following write-offs for capital losses, depreciation and bad debts.

BNL said the provisions were in line with prudential standards, and the group's policy of strengthening its financial position.

Before adjustments, the group reported a surplus of L2,696bn, up 31.3 per cent on the 1992 figure of L2,054bn.

The group, which has undergone reorganisation over the last two years, including transformation into a joint stock company, devoted L414bn to depreciation and related costs; L285bn to cover losses on investments; L734bn to bad debt reserves; and L304bn to other reserves. A further L477bn was set aside to cover deferred interest payments, and L549bn for debt write-offs.

In February, BNL unveiled a strong increase in parent company profits for 1993. The parent company's gross operating profit rose 68 per cent last year to L1,527bn.

The group's total customer deposits rose by just under 2 per cent last year to L84,033bn, while total deposits were L135,957bn. The group's loans to clients grew by 4.3 per cent to L100,800bn, out of total loans of L146,014bn, up 11.4 per cent.

Suez sees summer sale of Victoire

By Alice Rawsthorn

Suez, the French financial and industrial holding company, hopes by early summer to conclude the sale of Victoire, its insurance business, Mr Gérard Worms, chairman, said.

Victoire has been for sale since last autumn when Suez, which on Tuesday announced a return to the black with a net profit last year of FFr1.6bn ($270m), took full control of the company by acquiring the minority shareholding previously held by Union des Assurances de Paris.

Mr Worms said that "several European companies" had expressed interest in Victoire, which is valued at FFr18bn in Suez's accounts. He added that bidders had been asked to submit detailed offers over the next few weeks. A number of prospective purchasers, including BAT Industries, the UK conglomerate, have already withdrawn from negotiations.

The Victoire sale forms part of an aggressive programme of asset disposals by Suez.

Mr Worms said Suez envisaged a future dual role as a financial services conglomerate and a majority shareholder of other businesses.

Lex, Page 14

Manchester Utd ahead in first half

By Tim Burt in London

Manchester United yesterday shrugged off disappointment at its inconsistent form and suspension of star players by unveiling a 65 per cent increase in first-half profits.

The UK football club saw pre-tax profits grow to £7.6m ($11.09m) from £4.62m in the six months to January 31, as the club benefited from greater stadium capacity and success in cup competitions.

The announcement prompted a 15p increase in the share price to 675p – reversing losses following recent defeats and representing a 75 per cent gain on the 1991 flotation price.

Gate receipts rose 68 per cent to £10.68m, while merchandise turnover jumped threefold to £6.66m. Together, they underpinned a 75 per cent increase in total turnover to £22.8m.

Earnings per share rose from 25.8p to 43.2p before switching funds to the transfer fee reserve, and 26.8p afterwards. An interim dividend of 6.5p is declared, up from 6p.

Crédit Lyonnais restructures management

By Alice Rawsthorn in Paris

Crédit Lyonnais, the troubled French bank, is restructuring its international management team as part of the new strategy being implemented by Mr Jean Peyrelevade, chairman.

Mr Peyrelevade, who last month announced details of the loss-making bank's FFr44.9bn ($7.7bn) government-backed rescue deal, has created new positions at the top of its operations in the UK, US and Japan.

Mr Bernard Darmayan, former head of Crédit Lyonnais' currency activities in Paris, takes charge of its UK business. Mr Robert Cohen becomes head of its US operations and Mr Bernard Mignucci adopts the same role in Japan. Both Mr Cohen and Mr Mignucci were previously general managers of Crédit Lyonnais in those countries.

The three appointments will not, as newly created posts, involve any job losses. However Mr Peyrelevade last month announced plans to reduce Crédit Lyonnais's 32,861-strong workforce outside France by 4 per cent over the next three years.

Meanwhile Mr Jean-Yves Haberer, whom Mr Peyrelevade replaced last autumn as chairman of Crédit Lyonnais, yesterday appealed to the Conseil d'Etat, the government body, to challenge the legality of his dismissal last week as chairman of the Crédit National banking group.

صكنا من الاصل

INTERNATIONAL COMPANIES AND FINANCE

CS Holding lifts voting stake in CS First Boston

By Richard Waters in New York

CS Holding, the Swiss financial group whose interests include Credit Suisse, has lifted its voting stake in the investment bank CS First Boston to more than 75 per cent.

The increase, from 68.5 per cent, takes the group closer to its objective of gaining outright ownership of the investment bank, which is in the middle of a worldwide reorganisation.

However, a number of institutional investors, led by Metropolitan Life, the US insurer, has rejected an offer from CS for the remaining voting shares.

CS said yesterday that it had bought the shares previously held by five of the investment bank's 12 institutional shareholders.

The largest seller was Mitsui Trust and Banking, which had owned 1.8 per cent. Three of the others were Japanese life companies and the fifth was a European investment manager, CS said.

The purchases lift the group's interest in the investment bank's voting shares to 75.7 per cent from 68.5 per cent, and in the non-voting shares to 63.2 per cent from 59.8 per cent.

The Swiss group said that its intention generally was to own all of the shares in its subsidiaries, though it believed that it was beneficial for the employees of an investment bank to have an economic interest in their business.

Employees of CS First Boston are thought to own around 19 per cent of the company's non-voting shares.

The offer to buy out the remaining shares followed an approach from some of the institutional holders, who had expressed a desire to sell, CS said.

Metropolitan Life, which owns 9.9 per cent of the voting stock, and Crescent Diversified, an investment vehicle which holds 5 per cent, were among those that turned down the offer, details of which were not released.

Creditors back America West plan

By Richard Tomkins in New York

America West Airlines, the last big US airline still in Chapter 11 bankruptcy protection, yesterday said it had won its creditors' agreement to an amended reorganisation plan aimed at bringing the company out of bankruptcy by early autumn.

The scheme will deliver effective control of the company to the same investment group that brought Continental Airlines out of bankruptcy last year and which owns 28 per cent of Continental.

The reorganisation plan incorporates a co-operation agreement between America West and Continental, under which the two airlines will work together in a number of operational and marketing areas – for example, sharing flight codes on the same routes and merging their frequent-flyer programmes.

Mr Bill Franke, America West's chairman, said the benefits of this alliance would be worth at least $40m a year to America West. But he stressed that the airline would remain independent, along with its separate Phoenix hub and headquarters.

The reorganisation is backed by a consortium called AmWest Partners. This is led by Air Partners, the investment group that brought Continental out of bankruptcy.

One of Air Partners' principals is Mr David Bonderman, Continental's non-executive chairman.

Other investors in AmWest Partners are Continental itself; Mesa Airlines, a regional carrier based in New Mexico; and Fidelity Investments, a specialist in bankruptcy rescues.

AmWest Partners will invest up to $244.9m in return for a 33.5 per cent stake in America West. The unsecured creditors, who rejected an earlier plan offering them 45 per cent of the company, will now get 59.5 per cent; current shareholders will get 5 per cent; and GPA Group, a secured creditor, will get 2 per cent.

Although this structure appears to leave AmWest Partners with a minority stake in America West, some of its shares carry more votes than the other shareholders', giving it more than 70 per cent of the votes.

● Continental Airlines, which froze employees' pay and then cut it while in Chapter 11 bankruptcy protection, said it was resuming pay increases – but also said it would cut 1,000 jobs from its workforce of 43,000 over the next few months.

Strong first quarter for Charles Schwab

By Richard Waters in New York

Charles Schwab, the San Francisco-based retail broker, has confounded gloomy predictions for stockbrokers' first-quarter profits. It indicated that its earnings per share had risen by 10 per cent in the period, to 66 cents.

Schwab, which specialises in low-cost dealing services, added that the amount of share trading it handles had not fallen in recent weeks, despite the decline in US stock and bond prices, and that volumes continue to be "robust".

In January, Mr Charles Schwab, chairman, warned that first-quarter earnings were unlikely to match the exceptionally strong first three months of 1993.

But yesterday, Schwab said full figures to be published later this month would show net income of $39m, or 66 cents a share, against $35.4m, or 60 cents, in the earlier period.

Schwab handled an average of 33,000 trades a day during the quarter, up from 29,700.

The company's shares jumped $1¼ to $28¾ on the news, before falling back to $28 by late morning in New York.

Eli Lilly set to benefit from new heart drug

By Daniel Green

The biggest clinical trials yet conducted for Centorx, a new heart drug to be marketed by US company Eli Lilly, show it helps up to 35 per cent of patients, according to results published today in the US and tomorrow in the UK.

US and European approval and launch of Centorx are likely during 1995.

More than 350,000 patients a year are potential recipients of Centorx, said Mr Robert Califf of Duke University Medical Centre, one of the authors of the two papers.

Annual sales will be up to $150m a year, according to Dr Jonathan Gelles, an analyst with Wertheim-Schroder, securities house, and further applications for the drug are being studied.

Similar products are being developed by Merck, the biggest US drugs company, Roche, of Switzerland, and Cor Therapeutics, a northern California biotechnology company, said Dr Califf.

Centorx was developed by Centocor, a US biotechnology company in which Lilly has a near 5 per cent stake. The marketing rights to the drug reverted to Lilly when another of Centocor's drugs, the sepsis treatment Centoxin, failed to make it through clinical trials more than a year ago.

The success of the drug is important to Centocor. The failure of Centoxin pulled its stock market capitalisation down to just over $200m from $1.2bn in August 1992. It has now recovered to $500m.

The clinical trial results, published in today's New England Journal of Medicine and in Saturday's The Lancet, show that Centorx improves the success rate of a common procedure called coronary angioplasty, in which a small balloon is used to widen a partially blocked artery.

Angioplasty is cheaper than either of its two main alternatives: bypass surgery and treatment with the drug TPa. TPa is the most successful product from Genentech, another biotechnology company, say doctors from the University of Texas Southwestern Medical Centre, writing in the New England Journal of Medicine today.

The clinical trials studied the effects of the drug in 2,099 patients. They indicate that the drug cut the failure rate of coronary angioplasty in high risk patients to 8 per cent from 13 per cent after 28 days and by slightly less over six months.

Corning starts year firmly

By Richard Waters

Corning, the US glass and high technology manufacturer, matched market expectations in the first quarter of the year with a 12 per cent rise in underlying earnings per share.

The advance came from the optical fibre and cable business, as well as environmental substrate. This more than offset what Mr James Houghton, chairman, called "a significant loss of revenues" in its clinical testing business.

Net income rose to $58m or 28 cents a share from $49.8m or 26 cents (25 cents before a one-off item) the year before. Sales advanced to $949m from $817m, with half the growth due to the acquisition of Damon in the second half of last year.

The contribution from joint venture companies doubled to $16.5m.

It reported a strong performance from Dow Corning, the joint venture company at the centre of a global breast implant settlement which last quarter caused Corning to take a $203m charge against profits.

INTERNATIONAL COMPANIES AND FINANCE

Judge hits at AT&T/McCaw deal

By Martin Dickson in New York

A US Federal judge has raised objections to American Telephone & Telegraph's planned $12.6bn takeover of McCaw Cellular Communications, though he left open the door to eventual approval of the deal.

The ruling came from district judge Harold Greene, who oversaw the 1982 anti-trust legal settlement under which long-distance phone operator AT&T spun off its seven local telephone companies into separate businesses, known collectively as the "Baby Bells".

Judge Greene, who still monitors the settlement, ruled on Tuesday that AT&T's plans to buy McCaw, the largest cellular telephone service company in the US, violated the 1982 pact, since this prevented AT&T from buying the "stock or assets" of any Baby Bell company. McCaw jointly owns with Baby Bells cellular networks in several large cities.

However, Judge Greene left open the possibility that he would eventually approve the deal, saying the 1982 agreement could be modified to permit this – provided AT&T showed it was in the public interest.

Analysts said the ruling was unlikely to derail the takeover, but it could delay its completion, due over the summer.

AT&T said it would move quickly to state its case and was confident it could win a waiver and complete the merger on schedule.

Analysts pointed out that as a last resort, AT&T and McCaw could choose to sell their interests in the cellular networks which prompted this week's ruling.

Judge Greene was responding to objections to the McCaw deal raised by BellSouth, the largest of the Baby Bells, which is a partner with McCaw in some cellular licences.

BellSouth is using the case not so much to block the McCaw deal as to argue before Judge Greene that the Baby Bells should be allowed to enter the long-distance telecommunications market, in view of changes in the communications industry over the past decade.

They were barred from this area when they were spun off from AT&T. Legislation before Congress would allow them into long-distance after a delay of several years.

● Mr Joseph Nacchio, president of AT&T's consumer long distance business, said his units, True Rewards and True USA Savings, were winning back customers at a rate which was above internal expectations, Reuter reports from New York.

Mr Nacchio told the agency that AT&T's first-quarter earnings would have favourable news from the consumer long distance unit.

Last September, shortly after becoming president of the consumer long distance unit, Mr Nacchio said his first goal would be to stop the loss of market share.

Learning to live with low prices

Changes are in store for the US oil industry, as Amoco chairman Larry Fuller explains to **Robert Corzine and David Lascelles**

The US oil industry is only now getting to grips with the prospect of a prolonged period of relatively low oil prices, according to Mr Larry Fuller, chairman and chief executive of Amoco, the fifth-largest US oil company.

He said that until recently US oil companies did not have to contend with the same competitive pressures that forced other sectors, such as consumer electronics and telecommunications, to undergo radical structural changes.

Mr Fuller, who announced a restructuring of Amoco last month, said the sector had grown accustomed to rising oil prices and had been slow to react to recent falls.

His restructuring aims to eliminate unnecessary levels of management. "I want to put less distance between the chairman and the shop floor," he said.

The new structure will make its three operating companies – production, refining and chemicals – leaner business units. A small corporate centre will be created and some services now provided by Amoco staff may be transferred to outside contractors.

Amoco looked outside the oil industry for a model, and is creating a structure similar to that of Xerox.

Mr Fuller, who was in London to brief UK employees on the plan, declined to say how many jobs would be affected, although there will be "fewer people on the payroll a year from now than there are today".

Ashley Ashwood

Larry Fuller: shake-up aims to scrap unnecessary management levels and 'put less distance between chairman and shop floor'

He described low oil prices as "self-correcting" and said there were signs of strengthening gasoline demand in the US.

Low prices are not only causing companies to restructure, he said, but are also likely to trigger a broader realignment in the industry.

Amoco's criteria in assessing any merger or takeover target include "opportunities for rationalisation, complementary geographic coverage, people skills and the state of the balance sheet when you've finished".

But Mr Fuller noted that "driving out duplication" as a result of mergers or takeovers can "take years".

He said additional government incentives would be needed if companies were to develop the smaller North Sea fields which are likely to be discovered.

Amoco is one of the larger gas producers in the UK sector of the North Sea, which he said is "somewhat less attractive" as a result of the government removing tax breaks on exploration.

Gas also figures highly in Amoco's plans worldwide. In the US, high demand has kept gas prices firm despite downward pressure on oil; the same is happening in the UK.

Mr Fuller said Amoco will focus more on selling gas directly to users and consumers. It is also keen to expand into power generation, and willing to build and operate power stations in rapidly growing markets in Asia and Mexico.

Unlike many other integrated oil companies, Amoco's chemical operations have remained profitable – partly because of its lack of exposure to Europe, where chronic overcapacity, exacerbated by recession, has led to widespread losses.

Even so, Amoco made only $300m on chemicals last year, compared with more normal levels of around $600m. But capital spending this year of about $250m on chemicals will focus on fast-growing markets in Asia, a move which analysts say should help boost the division's profits.

The company's upstream international strategy includes participation in a consortium of western companies negotiating with the Azerbaijan government to develop offshore reserves in the Caspian Sea.

Those talks have been partly held up by the government's indecision over whether it or the national oil company should hold the Azeri stake in the project, according to Mr Fuller.

The project is also waiting a decision on an export route for the oil. Mr Fuller believes two pipelines will be built, one through to a Russian port on the Black Sea and one to the south, possibly to Turkey.

"That would make a lot of economic sense," he said, as one of the main markets for Azeri oil is likely to develop in Turkey and neighbouring countries."

Amoco is also involved in Russia, where unresolved legal and tax issues continue to hamper Western companies.

Novell appoints Frankenberg president

By Louise Kehoe in San Francisco

Novell, the leading US computer networking software company, has appointed Mr Robert Frankenberg, a senior Hewlett-Packard executive, as president and chief executive to succeed Mr Raymond Noorda, who is retiring.

The appointment puts to rest concerns about management succession at Novell. Mr Noorda, 69, had said last year that he planned to hand over the reins to a new chief executive, but seemed in no hurry.

The issue became more pressing last month when Novell announced aggressive expansion plans with the acquisition of WordPerfect, a leading word processing software company, and Borland International's spreadsheet product division.

The acquisitions will take Novell into the applications software market and place it head to head with Microsoft, the world's largest software company.

Mr Frankenberg, 46, who has spent his 25-year career at Hewlett-Packard, most recently heading the company's personal computer group, is seen as a solid choice to lead Novell. His broad experience in software, information systems and personal computing makes him well suited to the task, analysts said.

"I have worked very closely with Novell over the past four or five years, at HP," said Mr Frankenberg. "I am very excited about the merger with WordPerfect. It was pivotal in my decision to join Novell, because it gives us the opportunity to create a new era of network applications and make those the natural way to use computing."

Mr Noorda, who has shaped Novell into one of the largest and most influential companies in the software industry over the past 12 years, said he would remain chairman.

With the appointment of Mr Frankenberg, Novell has dissolved its "office of the president". The company's senior executives will now report to the new chief executive.

Cummins optimistic over first quarter

Cummins, the world's leading manufacturer of diesel engines, has issued an optimistic assessment of its first-quarter performance, writes Frank McGurty in New York.

The Indiana-based company said earnings in the three months to the end of March would "meet or perhaps exceed" its results in the fourth quarter.

On an operating basis, Cummins generated a profit of $52.6m, or $1.42 a share, in the final reporting period of 1993.

The estimate conformed with the forecasts of most analysts. Mr Gary McManus, of Kemper Securities in Chicago, projected operating earnings of $1.60 a share, based on sustained demand for heavy-truck engines and accelerating growth in the mid-range market.

The company added that its first-quarter revenues should reach the same level as in the final 1993 period, when it reported sales of $1.12bn, a 10 per cent year-on-year gain.

Unions blamed as Lorenzo fails in airline bid

Mr Frank Lorenzo's ATX Corp is to appeal against a US Transportation Department decision denying it a certificate of fitness to operate an airline, Reuter reports from Washington. Mr Lorenzo blamed trade union influence for the rejection.

The department, in its rejection of ATX's bid to start up a short-haul, low-fare East Coast airline, cited Mr Lorenzo's record of safety and regulatory compliance problems.

His application was fought by airline unions, who charged him with driving two of his former carriers, Eastern Air Lines and Continental Airlines, into bankruptcy.

Mr Steve Kolski, ATX president, said that "the decision to turn down ATX was made by the department as a political pay-off to organised labour with total disregard for the law, consumers' interests, or the rights of private investors to start their own business".

Mr Randolph Babbitt, Air Line Pilots Association president, said that "justice has been done, and the public interest has been protected".

Colgate in Czech venture

Colgate-Palmolive's Czech subsidiary has signed a joint-venture agreement with Czech Spojene Kartacovny to produce toothbrushes, Reuter reports from Prague.

The deal calls for up to 400,000 toothbrushes to be made monthly at the plant in the southern Bohemian town of Pelhrimov, under the US company's label.

The companies said Czech demand was running at 12m-15m toothbrushes yearly. The Czech plant plans to export 80 per cent of its output.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 07.04.94: Pool purchase price £/MWh	Final Prices for Trading on 16.03.94: Pool purchase price £/MWh	Final Prices for Trading on 16.03.94: Pool selling price £/MWh
0030	11.00	14.70	14.70
0100	10.83	14.74	14.74
0130	17.10	14.78	14.78
0200	20.69	14.78	14.78
0230	40.50	14.70	14.70
0300	40.00	14.66	14.66
0330	32.22	14.66	14.66
0400	25.00	10.92	10.92
0430	23.63	10.83	10.83
0500	21.27	10.83	10.83
0530	20.60	10.92	10.92
0600	20.60	10.92	10.92
0630	23.30	10.92	10.92
0700	29.15	15.58	15.58
0730	33.18	15.64	15.64
0800	32.25	15.80	18.57
0830	41.34	15.90	18.57
0900	41.35	15.91	18.58
0930	41.35	15.91	18.58
1000	41.35	15.91	18.56
1030	38.15	15.91	18.58
1100	35.48	15.91	18.59
1130	35.48	15.91	18.59
1200	35.47	15.91	18.59
1230	33.71	15.91	18.68
1300	33.17	15.91	18.58
1330	32.24	15.90	18.57
1400	30.85	15.90	18.57
1430	30.85	15.90	18.57
1500	30.85	15.90	18.57
1530	30.85	15.90	18.57
1600	30.85	15.91	18.58
1630	30.85	15.93	18.61
1700	42.00	18.23	20.94
1730	42.00	18.24	20.95
1800	42.00	19.72	22.48
1830	30.71	18.42	21.19
1900	30.71	19.84	22.61
1930	30.71	19.73	22.47
2000	30.48	19.57	22.25
2030	30.71	19.52	22.19
2100	47.00	18.13	20.80
2130	47.00	16.90	18.57
2200	42.10	15.63	15.83
2230	28.68	15.56	15.56
2300	28.88	15.51	15.51
2330	21.14	10.90	10.90
2400	17.00	10.90	10.90

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8:30am and 5:15pm Monday to Friday.

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ALL KNOWN CREDITORS HAVE BEEN OR WILL BE PAID IN FULL.
DATED 25 March 1994
T R HARRIS
Joint Liquidator

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ALL KNOWN CREDITORS HAVE BEEN OR WILL BE PAID IN FULL.
DATED 25 March 1994
T R HARRIS
Joint Liquidator

In the High Court of Justice 1994
No. 26 COS CT. 6
IN THE MATTER OF
BARLO GROUP PLC
and
IN THE MATTER OF
THE COMPANIES ACTS 1963-1990

NOTICE IS HEREBY GIVEN that the Order of the High Court of Ireland dated the 7th day of March 1994 confirming the reduction of the amount standing to the credit of the Share Premium Account of the Above named company in the sum of £15,958,778 and the Minute approved by the Court showing with respect to the share capital of the Company the several particulars required by the above Acts were registered by the Registrar of Companies in Ireland on the 29th day of March 1994.
Dated the 31st day of March 1994
William Fry
Solicitors
Fitzwilton House, Wilton Place, Dublin 2

INTERNATIONAL COMPANIES AND FINANCE

Pakistan plans to offer 25% bank stake

The Pakistan government is planning to offer 25 per cent of its shareholding in the Allied Bank of Pakistan for public subscription within a few weeks, the bank said, Reuter reports from Karachi.

Allied, with an authorised capital of Rs500m ($16.5m) and paid-up capital of Rs272m, is Pakistan's only bank owned and managed by its employees. It was privatised in September 1991. The employees' allied management group owns 51 per cent of shares and the government 49 per cent, said Mr Rasheed Chaudhry, a bank director.

Mr Chaudhry said the shares would be offered at a price of Rs70 per share. He declined to give further details.

Artika Optima proposes public issue

Artika Optima, one of Indonesia's largest plywood manufacturers, said it planned to go public in June by offering 66m shares, or 30 per cent of its enlarged share capital, Reuter reports from Jakarta.

The offering is expected to raise Rp400bn to Rp500bn ($12.7bn-$15.9bn), making it one of the bourse's largest capitalised stocks.

About 30 per cent of the proceeds would be used to acquire Maluku Dinamika Semen, an affiliated cement company.

Korea Telecom bids to open on April 18

The South Korean finance ministry said its previously-announced sale of a further 5 per cent stake in state-owned Korea Telecom (KT) would be made through open bidding on April 18 and 19.

The government hopes to raise about Won420bn ($520m) through the sale as it moves towards reducing its holding in KT to 51 per cent.

Hongs prepare for climate change

Groups are searching further afield for fresh gains, writes Louise Lucas

Turning in strong profit growth last year was, for a Hong Kong-based conglomerate, arguably like stealing candy from a child. The colony's hongs all hold respectable land banks, at a time when demand is far outstripping supply, and are tapped into important infrastructure projects at various stages of development.

However, with a strictly controlled supply of new land – just 50 hotly fought-after hectares a year – the developers are casting their nets further afield, buying up plots across the border in China to create commercial and residential units. The conglomerates are doing likewise and are exploring new lines of business in fields such as communications, industry and aviation.

Wharf, which has an asset base of about HK$100.5bn (US$13bn), is moving into cable TV and telecommunications. Hutchison is increasing its container terminal interests and preparing for the April launch of its revamped UK telecoms business. Swire Pacific is investing more in ports and bottling activities in China.

With the exception of the container terminals, none of these new projects are expected to make a large impact on the remaining financial statements this century.

Mr Edmund Brandt, investment analyst with Jardine Fleming, does not see Wharf's cable TV making a large contribution to profits before 2000.

In 1993, Wharf derived 75 per cent of its HK$2.7bn profits from property. Over the next three years three new development projects adding 6m sq ft will come on line. The increased supply, twinned with rising rentals, will sustain growth over that period.

Earlier this year, Citic Pacific, the Beijing-controlled conglomerate, paid HK$3.4bn for a 50 per cent share in Discovery Bay, a residential complex on one of Hong Kong's outlying islands. This will see its property earnings increase in the current financial year. Last year, the property portfolio was valued at HK$5bn.

Citic is positioning itself for the changed climate with power station interests in China (a path followed by Hutchison) and remains on the acquisition trail for both properties and investment/management stakes.

For Swire Pacific, where overall earnings were eroded by the fall in profits at Cathay Pacific, the 1993 picture was property driven. About half the profits came from this source and are expected to rise to about 60 per cent this year. The group has a HK$56.2bn portfolio of investment properties and is in one of the strongest positions to carry on milking the property cow.

Bucking the trend of strong property earnings last year, Jardine Matheson's Hongkong Land, its 32 per cent owned property investment arm, reported flat net earnings of US$306.5m, compared with US$305m in 1992, partially due to losses at Trafalgar House.

Mr Ravi Nahrain, head of research at Peregrine, notes that Swire's commercial property portfolio eclipses that of Hongkong Land's. Only four years ago, Hongkong Land's was double the size of Swire's.

"Hongkong Land was the largest commercial property landlord on Hong Kong island. Now it has quite clearly been replaced by Swire Properties. On a divisional breakdown, the driving force for Swire's earnings for the past couple of years and looking forward will certainly be Swire Properties. They have acquired what is arguably the best property investment portfolio in Hong Kong, and that will grow by a further 50 per cent – at least – in the next five years," Mr Nahrain says.

Swire is addressing the supply constraints on land in a more conservative manner. There is no flashy bidding at auctions, the preferred route for many. It is not calling on the Hong Kong and Chinese governments to free up more land, like Hutchison chairman Mr Li Ka-shing. Unlike Jardine, it is not selling out in favour of foreign fields.

Swire Properties will add almost HK$4bn to its net asset value by transforming a bowling alley and cinema, owned by the group, into an office building, simply for the construction cost. It has teamed up with the likes of Citic and China Motor Bus to acquire plots at prices deemed to be on the low side.

The group has a good prospect in its Tai Koo development on Hong Kong island. Office rentals here are about a third of those in the prime business district of central, but the area is well served by public transport and is closer to the airport. An increasing number of companies are relocating staff there, including some of the colony's biggest employers such as Jardine Pacific, Hongkong Telecom and Swire

On top of demand, there is room for rentals to move upwards. Mr Nahrain reckons another 50 per cent is within reach over 18 months, whereas it is unlikely that prime Exchange Square rentals will rise to the same level of HK$150 a sq ft.

Aviation, possibly the weak link after the profits fall at Cathay Pacific, has proved more of a mixed blessing. Dragon Air, the regional airline in which both Citic and Cathay Pacific have large stakes, is reckoned to have grown more than 80 per cent last year, according to Peregrine. Earnings at Hongkong Aircraft Engineering Company rose 15 per cent last year. As Cathay turns round, so aviation contributions will swell.

The exciting stories in the years ahead will be in the fields of infrastructure and communications. Container terminals will become more valuable to those companies which have invested in the ports, and are expected to become the driving force for Hutchison's earnings.

In communications, Citic will this financial year reap an additional HK$250m in earnings from its stake in Hongkong Telecom in its first full-year holding, according to Crosby Securities.

China will continue to play an important role for the hongs, possibly to a lesser extent at Jardine Matheson. According to Peregrine, the princely hong that started the Hong Kong ballgame rolling has been a net seller of HK$7.4bn-worth of Hong Kong and China assets.

It may be churlishness ahead of the de-listing next year but Jardine is generally deemed to have done the least in terms of a strategic blueprint to take it up to the turn of the century. Jardine's star turn in 1993 was Jardine Fleming, the Hong Kong merchant banking joint venture with Robert Fleming, which saw net profits leap 166 per cent to US$202m.

However, any stock market downturn will hit Jardine Fleming. Analysts also fear the parent will find it tougher to do business in China following the de-listing.

Hong Kong conglomerates' results

	1993 net profits HK$ (bn)	Earnings per share	1992 net profits HK$ (bn)	Change (%)	Earnings per share
Hutchison	6.3	$1.79	3.05	107.0	$0.96
Jardine Matheson	US$0.389	†US$0.6631	US$0.317	23.0	US$0.5459
Swire	4.6	$2.934	4.4	5.4	$2.783
Wharf	2.7	$1.273	2.0	33.0	$0.978
Citic Pacific	1.9	$1.082	1.0	81.0	$0.874

† fully diluted

Source: Company reports

Colonial Mutual Life soars to A$701.3m

By Bruce Jacques in Sydney

Colonial Mutual Life Assurance, the Australian financial services group, has raised the likelihood of demutualising following a strong result in calendar 1993.

The group announced a 260 per cent jump in net earnings to A$701.3m (US$501m) from A$194.5m and a 31 per cent increase in reserves to A$2.13bn from A$1.62bn.

Mr Peter Smedley, managing director, said the improved performance was helped by last year's bull share market, a restructuring of the business, and a focus on cost reduction, cutting group expenses by more than 18 per cent.

Mr Smedley said the group had appointed an internal review team to examine future capital needs, advised by S. G. Warburg.

He said the review would examine growth options, including changing the group's mutual structure through which it is owned by policyholders.

Mr Smedley indicated that the group was unlikely to remain a mutual, raising the possibility of a capital raising and the introduction of conventional equity.

Foodland in red but holds payout

By Bruce Jacques

Foodland Associated, the Australian grocery group, is holding its interim dividend at 12 cents a share in spite of extraordinary charges which sent it into the red for the seven months to January.

Net earnings rose marginally to A$18.8m (US$13.4m) from A$18.1m, including a A$7.5m abnormal loss. But a A$32.2m extraordinary loss sent the company A$12.4m into the red for the period.

Treasuries resume downwards drift after uneasy start

By Frank McGurty in New York and Antonia Sharpe in London

US Treasury bonds yesterday gave back some of their gains in Tuesday's powerful rally, with many traders unconvinced that the market had reached a turning point.

By midday, the benchmark 30-year government bond was $\frac{13}{32}$ lower at $87\frac{5}{32}$, with the yield rising to 7.313 per cent. At the short end, the two-year note was $\frac{3}{16}$ better at $99\frac{21}{32}$, to yield 5.461 per cent.

An uneasy calm descended on the market as the session opened. Bonds showed modest gains in early activity, as dealers followed through on the previous day's buying spree, which propelled prices higher and pushed down yields after a fortnight of relentless selling pressure.

By mid-morning, the market's efforts to adjust to the turbulent ride it had experienced began to take a toll. The early activity petered out, and the longer end of the maturity range slipped into negative territory.

The downward drift was partially explained by reaction to a report in the Washington Post that the Federal Reserve would wait until the financial markets steadied before raising interest rates for a third time. The news may have suggested a lack of determination by the Fed in fighting inflation, which has the greatest negative impact on the long bond.

The day's only economic news – March sales figures from US motor vehicle makers – was not due out until later in the day.

■ UK gilts opened firmer yesterday, encouraged by the overnight gains in US Treasuries and a firmer pound. However, they fell back in the afternoon in tandem with a weaker opening in the US.

The June contract of the long gilt future on Liffe went as high as $108\frac{21}{32}$, but lost most of the day's gains by the late afternoon when it fell to the day's low of 107¾. It then picked up to $107\frac{31}{32}$ for a gain on the day of just $\frac{5}{32}$.

GOVERNMENT BONDS

Dealers said there was still no evidence that the buyers' strike was over in the gilts market, despite the improvement in market sentiment since the long Easter weekend. Indeed, one dealer reported that multi-currency funds were selling gilts in favour of US Treasuries.

The release yesterday of stronger-than-expected money supply data for March, which could indicate that retail sales were healthy last month, did not have a great influence on the market.

The February data showed that UK institutions were net sellers of gilts for the second month running to the tune of £338bn but that overseas investors made net purchases of £1.5bn, the highest monthly figure since August.

In addition, the figures indicated that the Bank of England gave only limited support to the gilts market in February, with unofficial purchases of up to £250m.

■ German bunds failed to make significant gains after the Bundesbank cut its repo rate by three basis points to 5.73 per cent, in line with market expectations, since the cut was effectively neutralised by a unexpected net drain of DM1.8bn from the banking system.

The market had expected the Bundesbank to add a net DM2bn to DM4bn, so the net drain pushed call money to around 6.15 per cent from around 5.80 per cent.

The June contract of the Bund future on Liffe traded between a high of 97.36 and a low of 96.86 during the day and in the late afternoon it was quoted at 96.97, up 0.13 point on the day.

■ Italian government bonds remained volatile yesterday following the announcement late on Tuesday that Mr Silvio Berlusconi had suspended talks on the formation of a new government. Dealers said that investors were still wary of committing themselves to the market until the political situation improved.

The June contract of the Italian government bond future on Liffe traded between a high of 113 and a low of 111.95 during the day. By the late afternoon, it stood at 112.20, down 0.65 point on the day.

■ French government bonds ended off the day's highs ahead of today's auction of OATs. The Treasury has said it will sell between FFr18bn and FFr20bn OATs due April 2004, February 2004 and October 2025. The Bank of France's monetary policy council also meets today, but dealers said that a cut in the 5.90 per cent intervention rate was unlikely.

The June contract of the notional 10-year French government bond future on the Matif came off the day's best level of 123.92 to trade at 123.78 in the late afternoon, down 0.12 point on the day.

Futures markets hit peak trading levels

By Tracy Corrigan in London and Laurie Morse in Chicago

Continued volatility in the financial markets ensured another month of heavy trading volume on the world's futures exchanges.

The total volume of contracts traded on Liffe in the first quarter of 1994 grew 115 per cent compared with the first quarter of last year, while volume on the Matif increased by 83 per cent.

In Chicago, the US's two largest futures exchanges had their best month ever during March, with the Chicago Board of Trade (CBOT) trading 22.5m contracts and the Chicago Mercantile Exchange (CME) 22.2m.

The CME this year has begun counting expiring options, options exercises and mutual offset trades with Singapore as volume, inflating its turnover data. In the first quarter, the CBOT's volume was 57.9m contracts, up 38.9m from the first quarter of 1993. The CME's first-quarter volume was 54.7m contracts. Due to its new counting methods, accurate year-ago comparisons for the CME are not available.

The Matif, the Paris futures exchange, recorded its highest monthly volume in March, for the second month in a row; it traded 11.8m contracts, 90 per cent up on March 1993, and 10 per cent up on February 1994, the previous record month. The Notionnel (French government bond) contract traded almost 7m contracts, up 96 per cent on March 1993.

At the end of its first year as a member of Globex, the after-hours electronic futures dealing system, the Matif has accounted for 78 per cent of the total volume.

Liffe had its second busiest month to date, trading 17m contracts in March, a 104 per cent increase over March 1993.

Finland surprises with FRN

By Sara Webb

The international bond market sprang back to life with the launch of a handful of large deals in a range of currencies yesterday.

However, in spite of the apparent resurgence in new issue activity, syndicate officials complained that investors generally were slow to take up the new deals as market conditions remain fairly unsettled.

The Republic of Finland continued the trend for floating rate paper, tapping the market with a $1.5bn, five-year floating rate note.

The bonds will have a coupon of three-month Libid, and will be priced at 99.68 to give a yield of five basis points below three-month Libor. Based on yesterday's Libor figure of 4 per cent, for example, that would mean a yield of 3.95 per cent, although the actual coupon level has not been set yet.

The size of the deal took the market by surprise, and the issue was seen by some syndicates as being quite aggressively priced – particularly since the borrower is not considered to be in line for a credit-rating upgrade in the immediate future.

INTERNATIONAL BONDS

"It [the pricing] could have been more generous by a couple of basis points," said one floating rate note specialist.

Goldman Sachs, the lead manager, noted healthy demand for the issue from investors in east Asia, including central banks and government agencies. The bonds are due to break syndicate today.

Attractive swap opportunities once again lured a couple of borrowers into the Eurolira sector, with the Kingdom of Sweden increasing its new issue to L150bn from L120bn due to strong demand.

Sweden's issue is structured in a similar fashion to the recent L170bn deal from Bank Austria, in that the bonds have a 10-year maturity but are callable after a specified time – in this case, three years.

BCI, the lead manager, quoted a yield-to-redemption of 9.33 per cent, and a yield based on a three-year maturity of 9.64 per cent, using a late afternoon price of 98.70.

BCI said that demand came mainly from Italian domestic institutions.

Elsewhere in Europe, borrowers tapped the French franc and D-Mark sectors with fairly substantial issues, in spite of the continuation of difficult underlying market conditions.

Province of Quebec issued FFr5bn of 10-year bonds, which were priced to yield 65 basis points over the French government bond.

The spread widened out slightly to 66 basis points while the price of the bonds fell back from a re-offer price of 98.63 to 98.25 by late afternoon – which meant that the bonds were trading outside fees.

One of the joint book-runners pointed out that Province of Ontario is keen to diversify its funding programme, and had swapped the proceeds.

In the D-Mark sector, Commerzbank Overseas Finance launched a DM500m, five-year deal which was aimed primarily at retail investors in Germany, Switzerland and the Benelux countries.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Republic of Finland(a)‡	1.5bn	(b)	99.68R	May.1999	0.15R	-	Goldman Sachs Intl.
D-MARKS							
Commerzbank O'seas Finance	500	6.00	101.90	Apr.1999	2.00	-	Commerzbank
YEN							
Yamanouchi Pharmaceutical(c)§	40bn	(1-1¼)#	100.00	Mar.2014	2.50	-	Nomura International
FRENCH FRANCS							
Province of Quebec	5bn	6.875	98.63R	Apr.2004	0.35R	+66 (5¾%-04)	M.Lynch Cap.Mkts/Soc.Gén.
CANADIAN DOLLARS							
General Electric Capital Corp.	100	8.00	99.443R	May.1999	0.25R	+30 (5¾%-99)	ScotiaMcLeod
ITALIAN LIRE							
Kingdom of Sweden(d)	150bn	9.125	100.55	May.2004	2.00	-	Banca Comerciale Italiana
Bayerische Vereinsbank(e)	100bn	7.90	95.55	Feb.2004	undiscl.	-	Credito Italiano
AUSTRALIAN DOLLARS							
Export Finance & Ins. Corp.	75	7.25	100.75	May.1997	1.50	-	Hambros Bank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Callable on any coupon date from May.95 at par. b) 3-mth Libid flat. c) Fixing: 13/4/94. Conv premium indicated at 2½%. Downward refixing clause. Short 1st coupon. Callable from 1/4/98 subject to 150% rule. d) Callable on 5/5/97 and annually thereafter at par. e) Fungible with outstanding L250bn. Plus 75 days accrued.

E Europe investment patterns spelt out

By Sara Webb

Poland, Hungary, the Czech Republic, and Russia are the most attractive of the eastern and central European markets for long-term investment and expansion, according to a survey of international investors and professional advisers published yesterday.

But Slovakia, Bulgaria, Slovenia, Estonia and Romania are seen as "tomorrow's stars for regional development", according to Central & Eastern European Investment: 1994 Research Report, which compiled its report from questionnaires completed by 213 international organisations.

Joint ventures remain the most common corporate investment vehicle, with comparatively little acquisition or greenfield investment in the region. But survey participants point to several problem areas.

"The lack of any secure, workable banking infrastructure was cited as a major drawback to investment," the report says. In addition, the lack of reliable auditing services locally deters investors from making local acquisitions, while "the pervasive command economy mentality" poses difficulties for those involved in advising on privatisations.

** Published by Global Research, Euromoney Publications; Nestor House, Playhouse Yard, London EC4V 5EX. $810.*

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.500	08/03	109.5000	+1.140	8.03	7.23	7.17
Belgium		7.250	04/04	100.9300	+0.210	7.12	7.28	6.89
Canada *		6.500	06/04	88.9000	+0.600	8.13	7.68	7.15
Denmark		7.000	12/04	101.2700	+0.370	6.82	6.91	6.54
France	BTAN	8.000	05/98	107.3500	-0.030	5.76	5.76	5.63
	OAT	5.500	04/04	92.9200	-0.030	6.48	6.53	6.17
Germany		6.000	09/03	98.5100	+0.590	6.21	6.33	6.12
Italy		8.500	01/04	97.1600	-0.110	8.94†	9.15	9.06
Japan	No 119	4.800	06/99	106.7140	-0.150	3.29	3.45	3.60
	No 157	4.500	06/03	103.8510	-0.640	3.93	4.12	4.07
Netherlands		5.750	01/04	95.6400	+0.180	6.36	6.52	6.04
Spain		10.500	10/03	109.5500	+0.400	8.95	9.01	8.55
UK Gilts		6.000	08/99	95-03	+7/32	7.12	7.15	6.34
		6.750	11/04	94-19	+9/32	7.50	7.82	6.93
		9.000	10/08	111-07	+12/32	7.71	7.88	7.12
US Treasury *		5.875	02/04	91-31	-2/32	7.02	6.63	6.31
		6.250	08/23	87-06	-7/32	7.32	6.99	6.78
ECU (French Govt)		6.000	04/04	93.8500	+0.350	6.87	6.96	6.52

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime

		Treasury Bills and Bond Yields			
		One month	3.65	Two year	5.39
Prime rate	6¼	Two month	3.66	Three year	5.84
Broker loan rate	5	Three month	3.70	Five year	6.42
Fed.funds	$3\frac{9}{16}$	Six month	4.10	10-year	6.93
Fed.funds at intervention	-	One year	4.89	30-year	7.27

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	124.00	123.90	+0.26	124.38	123.78	226,072	127,112
Sep	123.26	123.14	+0.24	123.46	123.06	1,729	13,147
Dec	122.56	122.44	+0.24	122.58	122.56	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls May	Calls Jun	Calls Sep	Puts May	Puts Jun	Puts Sep
123	-	1.90	2.08	0.62	1.02	1.94
124	0.92	1.35	-	1.00	1.40	2.39
125	0.46	0.83	-	-	1.91	2.98
126	0.21	0.48	0.91	2.25	2.60	3.65
127	0.08	0.27	0.59	-	3.37	-

Est. vol. total, Calls 28,393 Puts 27,734. Previous day's open int., Calls 346,473 Puts 228,974.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.20	97.05	+0.21	97.38	96.86	135189	201363
Sep	96.76	96.71	+0.18	96.94	96.75	208	5538

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
9700	1.02	1.33	0.97	1.62
9750	0.77	1.11	1.22	1.90
9800	0.57	0.91	1.52	2.20

Est. vol. total, Calls 11630 Puts 9935. Previous day's open int., Calls 278573 Puts 240086

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	101.16	101.07	+0.11	101.25	101.13	100	2347

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	112.05	112.29	-0.56	113.00	111.95	43834	92114
Sep	112.00	111.84	-0.66	112.00	112.00	14	229

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11200	2.18	3.09	1.89	3.25
11250	1.92	2.86	2.13	3.52
11300	1.68	2.64	2.39	3.80

Est. vol. total, Calls 1318 Puts 1436. Previous day's open int., Calls 78977 Puts 78565

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	99.45	99.54	+0.40	100.08	99.35	65,543	92,045
Sep	-	99.98	-	-	-	-	-

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108-04	108-06	+0-15	108-31	107-20	80159	148705
Sep	-	107-09	+0-12	-	-	0	109

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
108	1-62	2-37	1-50	3-19
109	1-32	2-10	2-20	3-56
110	1-07	1-51	2-59	4-33

Est. vol. total, Calls 4098 Puts 4094. Previous day's open int., Calls 91134 Puts 72594

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	90.30	90.20	+0.30	90.50	90.06	1,516	6,736

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	105-00	104-24	-0-02	105-10	104-20	595,694	412,826
Sep	104-02	103-25	-0-04	104-13	103-23	6,411	43,660
Dec	103-13	103-06	-0-01	103-20	103-03	1,605	31,542

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	111.80	-	-	111.85	111.30	2643	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Apr 6	Day's change %	Tue Apr 5	Accrued interest	xd adj. ytd		Low coupon yield Apr 6	Apr 5	Yr. ago	Medium coupon yield Apr 6	Apr 5	Yr. ago	High coupon yield Apr 6	Apr 5	Yr. ago
1 Up to 5 years (24)	125.05	+0.35	124.61	2.07	2.68	5 yrs	7.13	7.23	6.71	7.38	7.47	6.96	7.49	7.61	7.17
2 5-15 years (23)	148.75	+0.48	148.04	1.84	4.03	15 yrs	7.59	7.67	7.71	7.70	7.77	8.15	7.97	8.02	8.40
3 Over 15 years (9)	168.16	+0.83	166.78	1.71	3.53	20 yrs	7.67	7.77	7.96	7.70	7.77	8.30	7.89	7.96	8.47
4 Irredeemables (6)	195.09	+1.56	192.10	3.63	1.47	Irred.†	7.80	7.92	8.35						
5 All stocks (62)	145.24	+0.51	144.50	1.94	3.48										

Index-linked							Inflation 5% Apr 6	Apr 5	Yr. ago	Inflation 10% Apr 6	Apr 5	Yr. ago
6 Up to 5 years (2)	184.97	-0.02	185.00	0.05	2.53	Up to 5 yrs	3.23	3.21	2.24	2.32	2.30	1.38
7 Over 5 years (11)	180.79	+0.30	180.25	0.83	1.29	Over 5 yrs	3.39	3.41	3.41	3.21	3.23	3.23
8 All stocks (13)	180.33	+0.27	179.85	0.75	1.41							

Debentures and Loans						5 year yield Apr 6	Apr 5	Yr. ago	15 year yield Apr 6	Apr 5	Yr. ago	25 year yield Apr 6	Apr 5	Yr. ago
9 Debs & Loans (73)	136.53	+0.97	135.21	2.15	3.27	8.65	8.67	8.59	8.76	8.90	9.25	8.82	8.91	9.46

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Apr 6	Apr 5	Mar 31	Mar 30	Mar 29	Yr ago	High*	Low*
Govt. Secs. (UK)	97.60	96.82	97.56	96.64	95.97	97.20	107.04	96.30
Fixed Interest	116.31	116.34	115.96	115.14	115.45	112.88	133.87	115.14

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Apr 5	Mar 31	Mar 30	Mar 29	Mar 28
Gilt Edged bargains	102.0	103.0	132.0	120.8	100.1
5-day average	111.6	114.3	124.2	117.2	112.5

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:55 pm on April 6

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	92⅜	92⅝	+¼	7.69
AlbertaProvince 9⅜ 95	600	105¼	105⅝		5.71
Austria 8½ 00	400	106⅝	106⅞	+⅛	7.06
United Kingdom 7¼ 97	5500	104¼	104⅜		5.76
Volkswagen Intl Fin 7 03	1000	100⅞	101⅜	+⅛	6.86
World Bank 0 15	2000	25⅞	27¼		6.29
World Bank 5⅞ 03	3000	98¾	96½	+⅛	8.39
Abbey Natl Treasury 8 03 £	1000	98¼	98½	+⅛	8.28
Alliance Leics 11⅜ 97 £	100	110½	111	+¼	7.48
British Land 8⅞ 23 £	150	93⅛	93⅝	+¼	9.61

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: [illegible] CONVERTIBLE BONDS: [illegible]

COMPANY NEWS: UK

City Centre up 15% as customers increase

By David Blackwell

An increase in customers helped City Centre Restaurants, which owns the Deep Pan Pizza and Garfunkels chains, lift profits for 1993 by almost 15 per cent.

The pre-tax line rose from £11m to £12.6m on the back of a 6 per cent increase in turnover to £95.2m (£89.6m).

Mr Bruce Johnston, chairman, said that covers had risen by 5 per cent in the final quarter, with the week between Christmas and the new year particularly strong. However, the average spend per customer remained flat.

London had been buoyant in the first part of this year, he said. More than 40 per cent of the group's 165 restaurants are within the M25 motorway.

Mr Johnston said he hoped that this week's tax increases would not dampen the improvement once people opened their pay packets at the end of the month.

The group opened eight new branches during the year, and now has 99 Deep Pan Pizza restaurants and 47 Garfunkels. It is planning to open at least 10 more this year.

The main focus would continue to be the pizza chain, where the average spend is £5 a head. Outlets were now being sought at out-of-town cinema and leisure complexes where people could park without being clamped, Mr Johnston said.

In order to benefit from the growing consumer interest in ethnic foods, the group is aiming to increase the rate of openings at its 10-strong chain of Chiquito Mexican restaurants. It is also planning further Caffe Uno pasta restaurants after successfully converting two of its outlets last year.

Capital expenditure for 1993 totalled £8.2m. The group ended the year with net cash up from £11.4m to £14m; net interest receivable was £672,000 (£574,000).

Earnings per share rose from 3.99p to 4.52p. A final dividend of 1.33p is proposed, lifting the total for the year from 1.57p to 1.78p.

Mr Phillip Kaye, the founder of the group who retired as chief executive last October, is retiring as an executive director on June 30, but will continue as a non-executive director.

£21m Swedish purchase for Siebe

By Simon Davies

Siebe, the international controls and engineering group, is to become Europe's leading control valve producer following its acquisition for £21m of Sweden's NAF Group.

Mr Allen Yurko, Siebe's chief executive, described the acquisition as a "perfect fit" from a geographical, product, and market sector point of view.

NAF makes industrial control valves, actuators and positioners, and is particularly strong in the pulp and paper industry, where Siebe has limited exposure. It also sells to the energy sector.

The company is debt free and has been consistently profitable. It has a 25 per cent market share in the Nordic countries, where Siebe has yet to develop a presence.

About 80 per cent of NAF's sales are in Scandinavia, and Mr Yurko said: "One of the key strategies here is to add the full range of Foxboro Eckardt products into the Scandinavian market."

Siebe invested some £110m last year in expanding its controls division through the acquisition of three new companies, Eckardt, Eberle and Schmidt.

Analysts expect similar bolt-on acquisitions to follow, as Siebe broadens its range of products and markets.

Indications would put companies in Mid 250 index

Rothmans, Vendôme to join indices

By Maggie Urry

Rothmans and Vendôme Luxury Group will be included in UK stock market indices next year under a rule approved yesterday by the FT-SE Actuaries Share Indices Committee.

Shares in the two companies, formed last October through the reorganisation of the tobacco and luxury goods empire, had initially been excluded from the FT-SE indices, although Dunhill, their former incarnation, had been included.

On current indications Rothmans would be included in the Mid 250 index, while Vendôme could be on the borderline of the Mid 250.

The two groups each have a complex corporate structure, with one UK company share and one foreign company share traded in "stapled units".

Only the UK company share is eligible to be included in the UK indices, and the problem lies in determining the proportion of the stapled unit accounted for by the eligible company.

The companies' weightings in the indices will be based on the percentage of the total assets which the eligible company is entitled to, calculated from the audited accounts.

After Rothmans and Vendôme lost an appeal to have their shares included last December, a working party was set up to look at the question of the treatment of such complex cross border structures in the indices.

An adviser to the two companies, who was involved in pressing for their inclusion, said yesterday of the committee's decision that he was "happy they have changed their thinking."

However, he thought there could still be subjectivity in the value given to companies in indices if they had significant intangible assets.

Under the new rule, SmithKline Beecham units will remain in the indices.

New FT-SE index rule on stapled units

The following announcement was made yesterday by the FT-SE Actuaries Share Indices Steering Committee.

The Committee has today approved a new rule governing the treatment of stapled units.

The effect of the new rule is that SmithKline Beecham Units will remain a constituent of the FT-SE Indices and that Rothmans and Vendôme Luxury Group will be eligible for inclusion in the FT-SE Indices at the end of 1994.

The weighting of the SB Units in the indices will, based on information provided by the company, remain unchanged, although subject to annual review following the publication of the company's audited accounts beginning in 1995.

The weighting of Rothmans and Vendôme will be determined by the UK Indices Committee in December this year after the publication of the audited accounts of the two companies and reviewed annually thereafter.

Rothmans and Vendôme have informed the Steering Committee that under the new rule, they believe approximately 30 per cent of the market value of the Rothmans Units and approximately 10 per cent of the market value of the Vendôme Units would be eligible for inclusion in the indices. These proportions may change when the audited accounts of the two groups are finalised.

A stapled unit is a unit which comprises shares in two separate companies (often of different nationalities) which are twinned in the form of a single indivisible unit for the purposes of trading and for which a single price exists for the unit rather than the underlying shares.

A share index is calculated from the share prices of its constituent companies each weighted to account for the company's relative importance in the index. In the FT-SE Indices, the weighting factor is derived from a company's issued equity share capital.

The problem posed by multinational stapled units, for a UK index, is determining how much of the combined unit's capitalisation is attributable to the UK company. Once this is done, the required weighting can be calculated.

The new rule provides a way of arriving at this weighting. The weighting of a UK company, traded as part of a stapled unit, will be based on the equity share capital where this matches the attributable earnings and dividend flows.

Otherwise, the economic value of the eligible (UK incorporated and tax resident) company will be assessed by comparing the asset values of the eligible and ineligible companies within the unit.

Standard Life blames KPMG Canadian unit

By Alison Smith

Standard Life, the UK's largest mutual insurer, has confirmed that KPMG Peat Marwick has lost the job of auditing its accounts because of the policy pursued by partners in KPMG Peat Marwick Thorne, the UK accountancy firm's Canadian partnership, over a property transaction.

The dispute has thus broken a relationship going back in one form or another to the early 1900s, and generating more than £1m in fees for the auditors last year.

In Standard Life's annual report, Mr Scott Bell, group managing director, said that Price Waterhouse would be proposed as the new auditors.

Merrydown cuts workforce by 15%

By Tony Jackson

Merrydown, the specialist Sussex-based cider maker, is to reduce its workforce by 15 per cent at an estimated cost of £300,000. It has also appointed a new finance director, Mr Stephen Burke, formerly acquisitions manager with Dunhill, the tobacco and luxury goods company.

The announcement follows a profits warning in February and the departure of Mr Michael O'Driscoll, finance director, in March.

Mr Richard Purdey, chairman, said 30 of Merrydown's 195 employees had been made redundant. The sales force has been cut from 25 to 14, with the regional sales network being axed and the remainder concentrating on key accounts such as supermarkets.

The company said cost savings from the measures were expected to amount to more than £1m. In the year to March 1993, pre-tax profits were down to £1.7m (£1.9m).

Merrydown's shares were unchanged yesterday at 149p, compared with a peak of 405p in October 1990.

Hogg confirms bid approaches

By Richard Lapper

Hogg Group, the medium-sized insurance broker, confirmed yesterday that it had "received preliminary approaches from a number of parties which may or may not lead to an offer".

HSBC Holdings last week announced the acquisition of a 6 per cent stake – worth about £6m – in Hogg Group, prompting speculation in the City that a takeover bid was in the offing.

Mr Anthony Howland-Jackson, chairman and chief executive of Hogg, said HSBC had shown interest in the past but that no formal approach had been made recently.

Yesterday's announcement prompted further upward movement in Hogg's shares which closed up 23p at 205p.

See Lex

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
City Centre	fin	1.33	June 9	1.12	1.78	1.57
Friendly Hotels	fin	3.5†	Aug 19	3.5	5.7	5.7
Irish Life	fin	6.12‡	May 27	5.44	9.12	8.44
Kingspan	fin	1.5‡	June 29	1.2	2.5	
Manchester Utd	int	6.5	May 17	6	-	19.5
Pittards	fin	1	May 13	1.5	1	2

Dividends shown pence per share net except where otherwise stated. †On increased capital. ‡Irish pence.

ABF in talks for sale of retail side

By Maggie Urry

Associated British Foods yesterday confirmed that it was in talks about the possible sale of its retail outlets to Greggs, the chain of bakers.

AB Foods said a further announcement would be made "within the next four weeks". Meanwhile no other details would be released.

One analyst said the sale could raise between £15m and £20m for AB Foods, but it was hard to estimate as there was little information about the portfolio of shops.

While the deal would be a small one for AB Foods, it could double the size of Greggs.

AB Foods shares rose 6p yesterday to 583p, after a 18p rise on Tuesday when the deal was widely rumoured. Greggs were unchanged at 743p.

Greggs, which is based in Newcastle upon Tyne, has 500 shops, while AB Foods' chain totals 495 shops, mostly trading under the Baker's Oven name and concentrated in the south-east.

Telegraph pays directors £2.72m

By Maggie Urry

Directors of The Telegraph newspaper group received total emoluments of £2.72m in 1993, up from £1.51m the previous year.

A large part of the increase represented a one-off £480,000 payment to Mr Daniel Colson for his work in connection with the group's investment in John Fairfax Holdings, the Australian newspaper group, where he is chief executive.

That bonus made Mr Colson the highest paid director in 1993, receiving £692,000.

Mr Conrad Black, chairman of The Telegraph, received an increase from £148,000 to £237,000. In addition, The Telegraph pays two thirds of the cost of Mr Black's office at Hollinger, The Telegraph's parent, and pays Hollinger for other services, such as advice on acquisitions. These costs totalled £1.04m (£813,000).

During 1993, The Telegraph and Hollinger combined to take a 18.7 per cent stake in Southam, the Canadian newspaper publisher.

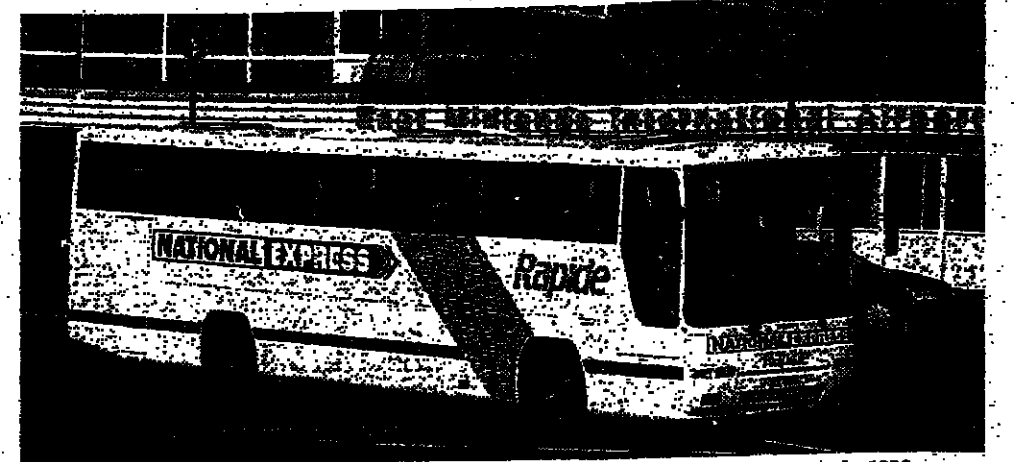
From motorway to runway

National Express plans to expand its airport side. Tim Burt reports

Tonight a McDonnell Douglas DC-8 will descend through the cloud over Leicestershire and make its final approach to East Midlands, the regional airport owned by a company better known for coach travel than transatlantic flights.

When the aircraft taxis to a halt it will be unloaded and refuelled by sub-contractors working for National Express Group, the long-haul coach operator.

The group regards the nightly arrival from Newark, New Jersey, as testimony to its success in diversifying from road travel into airport operations.



A complementary service: East Midlands boosted National Express profits by £2.2m in 1993

Less than a year since National Express acquired the airport from its council owners, its £27.1m investment has been transformed from a non-core activity into an integral part of its on-going business.

Its importance to National Express was underlined last month when the coach operator unveiled a 36 per cent increase in pre-tax profits to £9.3m (£6.8m) for 1993. Of that total, the airport contributed £2.2m after just five months as part of the enlarged group.

Those profits were boosted by the arrival of a number of new carriers, including United Parcels Services, the US express mail business, which last summer decided to move its cargo operations from London Stansted to East Midlands. Growth, meanwhile, in charter and scheduled traffic has underpinned a 10 per cent increase in passenger numbers to 1.37m.

By comparison, National Express's core long-haul coaches business struggled to take off last year. Passenger journeys on its UK express coach business fell by 6.6 per cent and turnover declined by 3.25 per cent to £92m.

Although the group is confident coach travel will bounce back, it believes profits would be enhanced further by an enlarged airport portfolio.

"The vision now is to expand the airport side. I would expect us to have one or two more airports by next year, but we're being very selective," says Mr Ray McEnhill, chief executive.

The gamble for National Express is whether it can repeat the success of East Midlands at other airports. Mr McEnhill believes it can by adopting the same criteria which last July persuaded it to acquire the Leicestershire hub.

National Express was attracted to East Midlands by its existing charter and cargo business and its location next to the M1 motorway. Such criteria rules out a number of airports – many of them no more than enlarged aerodromes – and narrows the group's target range to a few sites, most of them council-owned.

Mr McEnhill's bargaining position for such airports has been strengthened by government policy.

Public spending rules prevent local authorities from borrowing on the open market to fund airport expansion and – facing cash constraints elsewhere – several councils are said to be considering disposals.

"We've examined five or six likely sites and it won't be long before we select our target," Mr McEnhill says.

His attention is thought to centre on Bristol Airport, owned by the city council, which made pre-tax profits of £2.9m in the 12 months to March 31 last year and saw passenger numbers increase by almost a third to 1.1m.

National Express may consider an investment in Birmingham International, which is selling shares to fund an ambitious expansion programme, while airports at Coventry and Southend could also attract its interest.

The group's ability to bid for such sites has been enhanced by the terms on which it acquired East Midlands. It funded that transaction with £17.5m of medium-term debt, a £3.75m rights issue and cash reserves, and still emerged with a strengthened balance sheet.

The reason is simple. The airport's council owners sold the site at a £10m discount to its £37m book value, and it has since been revalued at £55.1m.

National Express would like to repeat the exercise with other councils and is prepared to fund such acquisitions by either returning to the market or increasing gearing from current levels of 22.5 per cent.

Industry trends have also played a part in persuading the coach group that runways offer better profit potential than motorways.

While revenues from express coach travel have declined, regional airports have seen demand climb steeply. Their popularity has increased with mounting congestion at London's two main hubs and pressure on tour operators to offer more diverse departure points.

Cargo carriers such as UPS, meanwhile, have been persuaded to move from the south-east by the promise of unrestricted night flights and easy access to the motorway network.

Encouraged by the increased activity, National Express has decided to invest up to £3m on extending the East Midlands runway and enlarging the apron space – enabling the airport to handle the largest fully-laden aircraft.

According to Mr McEnhill, these developments will see National Express emerge as a broadly-based transport group in which coach operations complement aviation activities.

"We make no secret of our desire to be an airport operator – it could account for more than 50 per cent of our profits in the near future."

NEWS DIGEST

Norish shows 14% advance to I£2.66m

Norish, the Irish group which provides food refrigeration, freezing storage and distribution services, raised pre-tax profits by 14 per cent in 1993, from I£2.32m to I£2.66m (£2.55m).

Turnover increased to I£11m (I£10.6m). An exceptional item of I£142,000 represented profit on the disposal of fixed assets.

Earnings per share came to 23.2p (20.7p). The final dividend is maintained at 7p for an unchanged total of 11.47p.

The company said it planned to adopt a facility whereby shareholders could elect to have their dividends payable out of Irish or UK profits.

Slough pays £15m for industrial estate

Slough Estates, the industrial and commercial property developer, has paid £15.3m for the Railway Triangle, an industrial estate adjacent to the M27 motorway in Portsmouth.

The property, a long leasehold from Portsmouth City Council, was acquired from Universities Superannuation Scheme. It comprises 35 buildings with an annual net income of about £1.31m.

Epwin expands in Canada

Epwin Group, a maker of PVC-u windows and doors, is acquiring 50 per cent of Berlinex Polymers, based in Edmonton, Canada, for C$3.5m (£1.7m) cash.

Berlinex, which makes its own range of PVC-u window extrusions, reported profits before interest and tax of C$819,000 on turnover of C$4.3m in 1993. Net assets at December 31 were C$1.67m.

Epwin will fund the acquisition from its own resources and bank facilities.

LAIT pays £9m for shopping centre

London & Associated Investment Trust, the retail property investment group, is to acquire the long leasehold of Dagenham's main shopping centre, The Mall, Heathway, for more than £9m cash.

Consideration will be financed from the group's own resources. The Mall, built in 1979, comprises 61,000 sq ft of retail accommodation. Current annual gross rental income is £933,000.

COMPANY NEWS: UK AND IRELAND

Irish Life shows 12% embedded value rise

By Tim Coone in Dublin

Irish Life, Ireland's largest funds manager in the life and pensions market, has reported a 11.9 per cent increase in embedded value from I£494m to I£553m (£531m) in 1993, which was broadly in line with market expectations.

In calculating the embedded value – the financial yardstick which measures the net present value of current and future surpluses expected to be generated from business currently on the company's books – the company has moved from a 15 per cent to a 12 per cent discount rate policy. This is in line with the fall in money market rates.

Pre-tax profits edged ahead to I£41.9m (I£41.6m). Premium income increased by I£99m – or 16.6 per cent – to I£697m, with the strongest growth occurring in the US subsidiary, Interstate, where premium income grew by 48 per cent to I£115m. Investment income rose by 26 per cent to I£309m.

In the group's core Irish market, individual single premium sales – which had dropped sharply in 1992 to only I£55.7m – staged a recovery and grew by 64 per cent to I£91.3m, although this was still well down on the 1990 level of I£141m. This sector has suffered through competition from low-tax savings products in the Irish market.

Overall premium income in the Irish market grew by 11 per cent to I£455.5m, but market share slipped by two percentage points to 25.7 per cent.

The UK division saw premium income grow 21 per cent to I£105.7m, but a fall in new business is anticipated in 1994, as the distribution network is overhauled and cost-cutting measures are implemented.

The company has also announced that it is to acquire another US subsidiary, the Boston-based First Variable Life for between $50m and $55m (£37.6m). The company is licensed to sell unit-linked products throughout the US and has assets of $350m.

Total funds under management at year-end grew by 34 per cent to I£6.45bn.

Earnings per share rose from 10.54p to 10.88p. The final dividend has been increased to 6.12p (5.44p) for a total up 8 per cent to 9.12p (8.44p).

● **COMMENT**

With the aftershocks of the 1992 currency crisis now behind it, strong growth in the US and an overhaul of its operations underway in both the Irish and European markets, the group is beginning to deliver on the expectations that had been created at its flotation three years ago. An increase in embedded value of I£70m looks possible this year, and if goodwill of I£100m is added for the value of cost savings and new business anticipated, then the current share price of 207p looks cheap by UK standards.

B Matthews buys NZ lamb business

By Peggy Hollinger

Bernard Matthews, the turkey products group, yesterday announced its first foray into red meat production with the purchase of a New Zealand lamb business.

In its third acquisition in 12 months, Matthews is paying an undisclosed sum for state-owned Advanced Foods, which has supplied lamb roasts to the UK company since 1985. It is believed the price is less than the £3.9m net asset value attributed to Advanced Foods.

Mr David Joll, Matthews' managing director, said the acquisition would open new markets to the company's more familiar turkey products.

About 50 per cent of Advanced Foods' sales are outside Europe, to markets such as North America and Japan.

Matthews is expected to invest about £2m in expanding the business and will introduce lamb products through its distribution outlets in France and Germany this year.

Advanced Foods, owned by the New Zealand Meat Producers Board, was created in 1985 to produce lamb products using technology licensed from Matthews.

Last year Advanced Foods made profits of less than £1m on sales of £15m. Mr Joll said the purchase was expected to make a small contribution in the current year.

Restructuring costs put Pittards in loss

Pittards reported pre-tax losses of £6.81m for 1993 after restructuring and closure costs of £8.3m relating to its withdrawal from clothing leather production, writes Jean Marshall.

There were profits of £853,000 for 1992, restated for FRS 3.

Turnover amounted to £114.6m (£100.6m) with £100.5m coming from continuing operations.

Before provisions, operating profits on continuing activities were £3.1m (£4.7m). The pre-tax result was after net interest costs of £1.57m (£2.11m).

Losses per share came through at 35p against earnings of 0.7p but a dividend of 1p (2p) is proposed for the year.

Mr David Macdonald, chairman, said that wool sheepskin prices, which had been volatile during the early months of 1993, rose sharply in the second half and had continued to rise in the first quarter of 1994.

However, the chamois division, although still lossmaking, performed appreciably better in the second half, he added.

So far this year the group's factories had operated at virtually full capacity.

In addition, there was an improving proportion of higher margin products in the sales mix.

Net borrowings at the year-end were slightly lower at £15.3m.

Exide buys Big Batteries

Exide Corporation of the US has moved into the European battery market via the acquisition of Big Batteries for a sum in excess of £20m.

Big Batteries, based in Cwmbran, Wales, is the UK's largest privately-owned maker of automotive batteries.

Exide has a 35 per cent share of the North American automotive battery market.

NEWS DIGEST

Friendly Hotels advances

Although the anticipated improvement in trading conditions did not materialise, Friendly Hotels managed to achieve increased turnover and profits in 1993.

On turnover up from £29.6m to £32.4m, pre-tax profits for the year to December 26 came out at £2.61m.

That compared with restated profits of £374,000 for 1992, although the company said the advance was rather more modest when compared with the pre-FRS 3 figure of £2.54m.

Earnings per share were 6.3p (9.5p losses) and a final dividend of 3.5p is recommended, maintaining the total at 5.7p.

Two new hotels were opened towards the end of last year, and were "trading encouragingly" in 1994, the company said.

In September Friendly raised some £18m through a rights issue, reducing net borrowings to £30.1m and gearing to 37 per cent.

Wimpey extends quarrying interests

George Wimpey is to reinforce its position in UK quarrying with a move to full ownership of Wimpey Hobbs, its west country and Wales quarrying company.

The move involves Wimpey's purchase for £7.5m of the remaining 20 per cent interest in Wimpey Hobbs held by Hobbs Properties, a family owned company.

Mr Joe Dwyer, chief executive, said full ownership improved the group's flexibility significantly. "We will be able to complete the merger of our two UK businesses – Wimpey Hobbs in the south and Wimpey Asphalt in the north – giving increased opportunities for rationalisation and investment," he said.

CE Heath makes US disposal

CE Heath, the insurance broker, has sold its 84.61 per cent interest in Cornwall & Stevens, its southern US-based specialist agricultural risk broker, to Mutual Service Casualty Insurance of Minnesota.

Total consideration was $7.45m (£5.1m) cash, of which Heath's share amounted to $6.3m.

At the same time, Heath's New York underwriting subsidiary, Lloyds New York Insurance Company, has sold to MSI its lossmaking agricultural book of business for $350,000 cash. About 85 per cent of this business is introduced to LNY by C&S.

Proceeds will be reinvested in Heath's worldwide broking operations.

Seton Healthcare moves into Japan

Seton Healthcare Group is to enter the Japanese market following the completion of a distribution agreement with Mitsubishi Plastics, part of the Japanese conglomerate.

The deal will give Mitsubishi exclusive distribution rights for the Lyofoam wound treatment product in Japan. Seton will receive £100,000 immediately and the Japanese group has agreed to performance criteria.

Mr Iain Cater, Seton chief executive, described wound management as an area "where we are committed to developing new products". The market was underdeveloped in Japan, he said, with significant growth potential.

Cookson to buy Union Carbide arm

Cookson, the industrial materials group, has signed a letter of intent to buy the electronic materials division of Union Carbide, the US chemicals manufacturer.

The final consideration for the businesses, which had sales of $28m (£19m) last year, was not disclosed.

The acquisition will add protective coatings to the range of printed circuit board chemicals which Cookson supplies.

The deal covers three Union Carbide subsidiaries – London Chemical and Specialty Coating Systems of the US and Nova Tran, a UK company.

They will join Cookson's electronic materials division which had sales of £400m last year.

Powell Duffryn waste collection buy

In line with its strategy of developing its share of the growing European environmental engineering market, Powell Duffryn has acquired Kiggen Beheer, the Netherlands-based designer and manufacturer of waste collection systems.

Powell Duffryn, which has interests in distribution and specialist engineering, said Kiggen would complement its European refuse collection vehicle business.

Kiggen has annual sales of Fl 18m (£6.2m) and net assets of Fl 4.4m.

Andaman expands via share placing

Andaman Resources, the Belfast-based mineral exploration company, has agreed to acquire Southern Roadmarkings, together with a 24.9 per cent stake in Fleet International via the issue of 3.7m new ordinary shares.

In addition, Andaman will subscribe for £150,000 non-voting deferred shares in Fleet, a supplier of specific types of software to HM Prison Service.

For the year to end-March 1993 Southern Roadmarkings achieved operating profits of £460,000 while Fleet had sales of £450,000 for the first quarter of 1994.

The shares are being placed by Charles Stanley.

Japanese copper cuts expected after Gatt deal

By Kenneth Gooding, Mining Correspondent

Japan's copper industry will permanently close between 200,000 and 300,000 tonnes of annual smelting capacity – roughly one quarter of its present 1.2m tonnes – as a result of its government's agreement to reduce tariffs on refined copper imports, analysts suggest.

"This is a major sea change in the copper business," says Mr John Champagne, industry adviser to the US government during the negotiations on the General Agreement on Tariffs and Trade. "The Japanese smelters will no longer be the power in the industry they are today."

At present Japan imposes a tariff of Y15,000 ($145) a tonne on imports of refined copper, equivalent to about 8 per cent on the present price. As part of the Gatt Uruguay Round to be ratified on April 15, over the next five years this will reduced in stages to Y9,700. Then in 1999 the tariff will be changed to 3 per cent a tonne.

Mr Champagne points out that the change to an *ad valorem* tariff is important in that the cost will reduce as world copper prices fall. "The protection the Japanese smelters will have in future will reduce when they need it the most – when copper prices are low and the margins for treating raw materials are under pressure."

The present tariff barriers have enabled Japan to build up one of the world's strongest copper smelting and refining industries even though it has no copper mines. The tightly-knit Japanese copper smelting cartel, known in the industry as the Japanese Smelter Pool, dominates the world market for copper concentrate (an intermediate material), importing about two thirds of all the concentrates traded internationally.

This dominant position gives Japan a disproportionate influence in the financing of new copper mines anywhere in the world because owners usually need a contract with the Pool before they can obtain finance.

The tariffs give Japanese producers a protected base from which to export aggressively to third countries and allow Japanese smelters to offer higher prices in global markets for copper scrap and concentrates, which are imported duty free to Japan.

Mr Champagne, president of Magma Metals, part of the MagmaCopper group, says that, while the Gatt compromise fell short of the US industry's goal of removing all duties and other trade barriers on refined copper, it was "an important step to reduce distortion of the world copper market and will benefit all copper consumers in Japan".

He suggests that, "while a loss of duty protection may hasten the closure of some obsolete Japanese smelter capacity, it will not threaten the entire industry. The more efficient plants will survive".

Mr Champagne points out that the US has taken second place as a supplier of copper to Japan behind Chile, a country that enjoyed a considerable advantage from GSP (Generalised System of Preferences) status, which permits tariff-free imports from developing countries under certain circumstances. "If it were not for the Japanese duty, US exports might have been higher still and quite possibly Chile's would have been less," says the Magma president.

Apart from being a reliable supplier of high-quality copper, the US could deliver from its west coast ports to Japan in only two to three weeks, compared with six weeks from Chile.

Analysts suggest that the Japanese smelters will not wait until the last moment to rationalise capacity and expect closures in the next two or three years. Top of the list of potential casualties, they say, is Dowa Mining's 55,000-tonnes-a-year smelter at Kosaka, which has very high transport costs because of its inland site. They also mention the possibility of Mitsubishi closing its Onahama smelter (250,000 tonnes) and of Nippon Mining shutting one of the two furnaces at its Saganoseki smelter (180,000 tonnes).

● World shortages of copper concentrate and scrap, as well as reduced economic activity in Japan, are forcing the Japanese smelters to cut output in the first half of this year. Dowa says it will cut by 10 per cent, compared with the second half of 1993, to 9,846 tonnes a month; Nippon Mining by 14 per cent to 24,000 tonnes a month; Mitsubishi by 12.4 per cent to 21,300 tonnes a month; and Sumitomo by 9.9 per cent to 94,200 tonnes a month. All four companies also intend to reduce lead and zinc output in the first half.

US agricultural exports forecast to more than double

By Deborah Hargreaves

Agricultural exports from the US could more than double by 2005 to $8.7bn as a result of the Gatt deal, according to a report by the US Department of Agriculture.

By 2000, the report expects US farm exports to rise by $1.6bn to $4.7bn, bringing higher prices and increased income for producers.

Subsidised farm exports will begin to be replaced by the free market under the Gatt deal, changing world wheat markets fundamentally, the report says. "Removal of subsidies will increase prices, dramatically for some countries, and reduce world trade in the first years of the agreement." After that, world income will rise leading to an increase in demand.

One of the important conclusions of the USDA's analysis is that the Gatt deal will be good news for world agriculture by raising income worldwide, which will lead to higher demand for farm products and an increase in prices.

World prices will rise by 2 to 3 per cent for wheat and 7 to 8 per cent for feedgrains by 2005, the report predicts. US wheat output will rise and exports will be 150m to 200m bushels more than they would have been without a Gatt agreement. US farm incomes could rise by $1.3bn in 2000 and by as much as $2.5bn in 2005. This would help offset spending on farm support, reducing outlays by an estimated $2.6bn in 2005. And export-related employment in agriculture could rise by 190,000.

The deal will encourage countries to keep open their markets for farm products. Mr Mike Espy, US agriculture secretary, explained recently to the House of Representatives committee on agriculture: "Perhaps even more important for the future is the discipline the Uruguay Round will apply to countries that might otherwise choose the direction of closed markets, production-inducing internal supports, and subsidised exports."

He said this gave a signal to large US trading partners that remained outside Gatt – China, Taiwan and the nations of the former Soviet Union.

Hungarian land law infuriates the business community

By Nicholas Denton in Budapest

A new land law passed yesterday by the Budapest parliament severely limits foreign investment in Hungarian agriculture, one of the country's traditionally strong sectors.

The act, although it does not affect existing holdings, bans new purchases of land by foreign individuals and companies. It allows non-Hungarian investors to lease no more than 500 hectares and then only for 10 years in general.

The business community has reacted furiously to the new legislation. "Foreign investment in the agricultural field is dead as a dodo," said Mr Adam Batthyany, head of Batthyany Securities and one of the largest private landowners.

Officials in the agriculture ministry have also been critical of the government's policy and included the limits on foreign land ownership under duress.

An infusion of foreign capital and know-how had been widely seen as one way to restore Hungarian agriculture to its former health. Hungary was the eastern bloc's largest agricultural exporter but drought, loss of markets and confusion over property rights caused output to fall 17 per cent in 1992 and a further 5 per cent last year.

Foreign purchases of land are, however, unpopular among a rural constituency whose support is crucial to the conservative coalition's chances at next month's elections and political calculations have proved decisive.

The discriminatory elements of the land act would be incompatible with Hungarian membership of the European Union, for which Budapest formally applied just last week.

The government said that the measures would apply only to the interim period leading up to EU accession and until Hungarian land prices, currently a fraction of western rates, reach "realistic" levels.

Nevertheless, Hungary's policy is in general to harmonise domestic legislation with EU directives in advance of membership and the land act breaks with that practice.

Oil holds on to price gains as market 'ignores fundamentals'

By Robert Corzine

Oil prices yesterday held on to most of the gains made earlier this week when a rally sparked by the entry of hedge funds into the oil futures' markets caused the price of the benchmark Brent Blend to rise by more than $1 a barrel.

In late London trading yesterday Brent Blend was $14.25 a barrel. Last week prices fell from the $14 level to around $13 in the aftermath of the Geneva meeting of the Organisation of Petroleum Exporting Countries.

Many traders believe the market over-reacted to Opec's decision to forego a cut in output in favour of rolling over the present production ceiling of 24.52m barrels a day until the end of the year.

The latest price strength was evidence that it was experiencing a "guilt syndrome" for taking such a negative initial view of the Opec decision, according to Mr Peter Gignoux, head of the energy desk at brokers Smith Barney in London.

Other analysts said the latest price swings ignored market fundamentals, which continue to point to plentiful supplies and relatively weak demand in the second quarter.

Mr Vahan Zanoyan of the International Petroleum Finance Company in Washington said "there was no justification for the $1 a barrel rally," which he said was "unrelated to the reality on the ground".

He cited especially weak demand in Asia and the prospect of greater Russian exports with the return of good weather at the country's main oil ports as factors maintaining downward pressures on prices. In addition a Reuters survey yesterday of Opec production suggested that the organisation's March output exceeded its ceiling by 500,000 barrels a day.

Mr Zanoyan said the hedge funds now constituted a technical factor in the market. They could prove particularly volatile if they "liquidated their position at a time when weak fundamentals are baring their teeth," he added.

Disease slashes cotton crops

By Nancy Dunne, in Washington

Two years of disease and pest damage have slashed cotton output in Pakistan and China by a third and thrown into question forecasts of world production over the next decade.

According to the International Cotton Advisory Committee, an association of exporting and importing countries, there is danger that the leaf curl virus, now infecting Pakistan, will spread to North India and Central Asia during the next few years.

Pakistani production has already fallen by 40 per cent over the past two seasons, generally the result off the virus and other pests for which no effective deterrent has been discovered. With the decline in cotton and its impact on the textile industry, Pakistan's GDP could fall by more than 2 per cent this year, the ICAC said in its March-April Cotton Review.

Declining yields and rising output costs could reduce planted acreage in 1994-95. "The use of resistant varieties and a third year of experience with the leaf curl virus could lead to marginally higher yields," the ICAC said.

Pests and disease are reducing the harvest in China. Production in 1993-94 is 600,000 tonnes less than consumption. According to the ICAC, the problem appears to be "of a long term nature and will necessitate shifts in the location of cotton production and changes in agronomic practices in the affected areas".

Double cropping cotton with wheat, which provides a year-round habitat for bollworm and aphids, may have to stop. Prices are also being pushed up by prices for competing crops.

World cotton production in 1993-94 will be 1.3m tonnes less than the previous year and nearly 2m tonnes less than consumption projections for 1994-95. "It is possible that average prices in the 1990s will be higher than the 1980s, and that the 76 per pound average of the 1970s might be the norm of the current decade as well," the report said.

MARKET REPORT

Coffee and cocoa futures push higher

London Commodity Exchange COFFEE and COCOA futures strode higher yesterday afternoon after wavering in the morning.

Short-covering helped the May coffee price to a fresh high of $1,425 a tonne before closing $30 up at $1,414. "With no coffee coming onto the market at the moment, perhaps someone has just decided to buy," suggested one trader.

Cocoa prices were also stronger, but in routine volume. The May position gained £12 to £881 while near July rose £11 to 900 stg. Traders said it was "trying to consolidate".

Compiled from Reuter

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1285.5-6.0	1311.5-12.0
Previous	1290-1	1315.5-6.0
High/low	1287	1320/1306
AM Official	1286.5-7.0	1311.5-12.0
Kerb close		1306-6.5
Open int.	269,062	
Total daily turnover	92,257	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1270-80	1280-90
Previous	1285-95	1300-5
High/low	1280/1275	1300/1280
AM Official	1270-5	1280-5
Kerb close		1275-80
Open int.	4,500	
Total daily turnover	913	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	441-2	454.5-5.0
Previous	442.5-3.5	456-7
High/low		457/453
AM Official	440-1	453.5-4.0
Kerb close		454-6
Open int.	33,149	
Total daily turnover	9,996	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5500-10	5565-75
Previous	5560-1	5620-5
High/low		5600/5555
AM Official	5495-500	5565-70
Kerb close		5570-5
Open int.	46,957	
Total daily turnover	13,103	

■ TIN ($ per tonne)

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Apr	384.9	+0.5	385.8	383.6	2057	971
May	385.8	+0.5	-	-	-	-

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
May	108.95	-0.90	109.40	108.90	1,481	170
Jan	109.90	-1.10	110.30	110.00	779	106

[illegible]

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
May	882	+13	881	865	18,649	1,337
Jul	900	+11	903	886	19,004	1,735

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Apr	77.725	+0.325	77.800	77.525	18,912	4,030
Jun	74.875	+0.125	74.950	74.750	28,410	5,472

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

[illegible]

ENERGY

[illegible]

PRECIOUS METALS

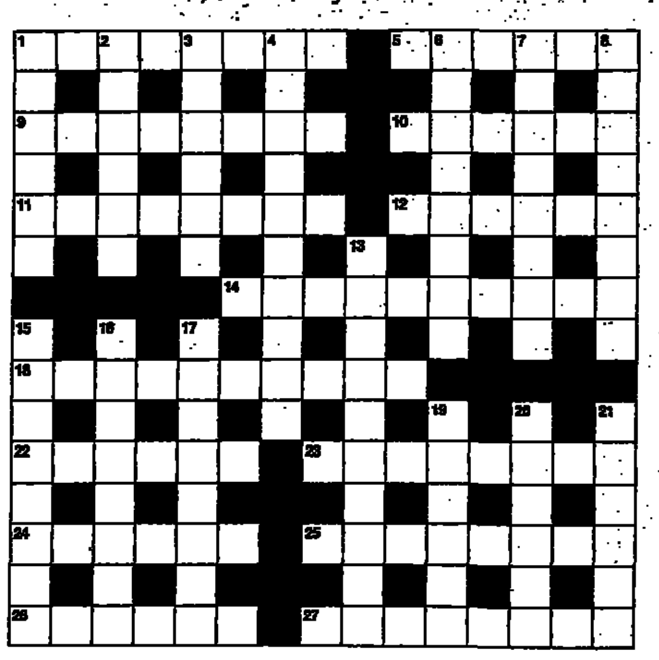
[illegible]

INDICES

[illegible]

CROSSWORD

No.8,422 Set by ADAMANT



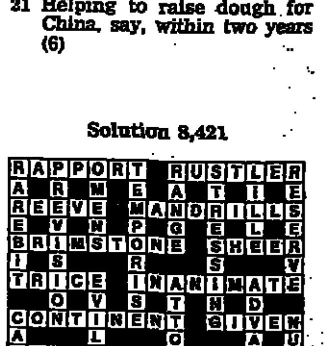
ACROSS

1 Risky parking – oil sure to be slippery (8)
5 Generates a mass of square pieces (6)
9 Felt for example the hens are less productive (8)
10 Rushed into shed the man had left stocked up (6)
11 Pointless clue: "Rainy mess in the kitchen!" (8)
12 Be back in time for the discussion (6)
14 More laid back and into a change of heart after opening commercial (10)
18 Tithes went out of fashion – only half of them here (10)
22 Test paper on literature and music (6)
23 Fellow motorist to supply advanced mechanisation (8)
24 Brief pang when it's time to fly east (6)
25 Silent revolution in American appliances (8)
26 It's a European Community task to solve the case (6)
27 Time of year fur comes out all round Britain (8)

DOWN

1 Swoop suddently upon distraught chancellor of the exchequer (6)
2 Why does Royal Exchange accept one pound by internal direct debit? It's a puzzle! (6)
3 Ruling out an act of enticement (6)
4 French and English articles filled the gap, leaving nothing out (10)
6 Miserable old news service gets predictable reaction (8)
7 Long threads aren't commonly used in make-up (3,5)
8 Duly send off without notice (8)
13 It's not a straightforward representation of black and white (10)
15 Left inside he got into the loft with an easy movement (8)
16 Relates to saucy one from Scottish society (8)
17 Gets left with rug, damaged in the fight (8)
19 Take nothing away from official conducting inquest on the free kick (6)
20 Craft centre (6)
21 Helping to raise dough for China, say, within two years (6)

Solution 8,421



JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Early gains cut back before the close of trading

By Terry Byland,
UK Stock Market Editor

The UK stock market extended its recovery yesterday, although shares *closed well below the best of the day as Wall Street failed to carry* through its overnight strength into the new trading session. Market strategists sounded somewhat cautious of applauding the equity rally, pointing out that the first day of the new financial year in the UK brought a sharp increase in trading *volume which appeared to be* grounded in tax-related deals.

A further shaving of interest rates at the money market repo auction in Germany, together with a firm performance from sterling, encouraged interest rate optimism. *Gains in UK government bonds also* buttressed confidence in the stock market and little attention was paid to the rise in annualised M0 money supply last month.

But the final reading on the FT-SE 100 Index of 3,131.5 for a gain of 15.3 was well below the day's peak and did not even match the first reading on the index, which opened some 26 points up in response to the Dow's overnight rise of 83 points. The FT-SE Mid 250 Index, which includes a range of second line stocks, put on 15.1 at 3,778.1.

The early strength also reflected a substantial buy programme which appeared to be related to year-end tax trades and originated from a large US investment bank. *Lines of* stock, across both the Footsie and FT-SE Mid 250 ranges, were sold on Tuesday night by investors seeking to establish a tax loss for 1993-1994.

Account Dealing Dates		
*First Dealings: Mar 28	Apr 11	Apr 25
Option Declarations: Apr 7	Apr 21	May 12
Last Dealings: Apr 8	Apr 22	May 13
Account Day: Apr 18	May 3	May 23

*New time dealings may take place from two business days earlier.

At the opening of the market yesterday, many of these stocks were rebought in deals which lifted the Seaq trading total sharply.

Boosted by these tax-related deals, Seaq business for the day jumped by nearly one-quarter to 944.2m shares. But traders said business died away in the middle of the session, although reviving towards the close when both US *Federal bonds and Wall Street* turned easier. The Dow Industrial Average was 14 points down when *London went home for the day*, leaving UK traders to watch New York markets closely for a lead to this morning's London opening.

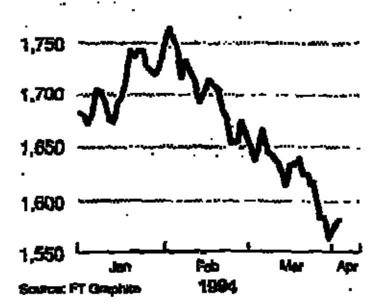
London was somewhat slower than some continental European markets to respond to the improvement overnight in sentiment on *Wall Street*. Analysts of the UK market pointed to lingering uncertainties over the outlook for domestic base rates. Hopes for an early cut in rates to counterbalance the *tax rises to be implemented this* month appear threatened by the likelihood that the US Federal Reserve *will tighten* credit policy again soon, as well as by political uncertainties in the UK.

However, market confidence *steadied yesterday. Hoare Govett*, the UK securities house, dismissed last week's rumours that a repeat of *the 1987 crash was in the offing*, noting that the "pendulum of market sentiment" has swung from one extreme to the other since the *beginning of the year*.

In particular, Hoare urges that the yield ratio of bonds to equities has remained relatively stable at around 2.1, compared with more than 3.3 at the time of the 1987 crash. "The two episodes have been entirely different," said Hoare.

US dollar strength helped the multi-nationals, with the pharmaceutical sector in good form. Across the wider range, the stress was again on manufacturing sectors, and consumer stocks continued to lag behind as the market focused on sectors more directly linked to UK *economic recovery*.

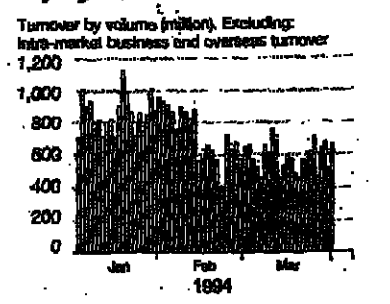
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3131.5	+15.3	FT Ordinary index	2472.9	+10.3
FT-SE Mid 250	3778.1	+15.1	FT-SE-A Non Fins p/e	20.73	(20.61)
FT-SE-A 350	1590.4	+7.4	FT-SE100 Fut Jun	3133.0	+6.0
FT-SE-A All-Share	1580.52	+7.29	10 yr Gilt yield	7.59	(7.62)
FT-SE-A All-Share yield	3.67	(3.69)	Long gilt/equity yld ratio:	2.15	(2.15)

Best performing sectors		Worst performing sectors	
1 Oil Exploration	+2.1	1 Electricity	-1.2
2 Merchant Banks	+2.1	2 Retailers, Food	-1.1
3 *Oil Integrated*	+1.6	3 *Leisure & Hotels*	-0.5
4 Engineering, Vehicles	+1.5	4 Transport	-0.5
5 Mineral Extraction	+1.5	5 Diversified Inds.	-0.3

Bid talks power Hogg

News from Hogg Group, the insurance broker, that it is in *discussions with a number of* potential bidders triggered another strong burst of buying interest. Dealers said they expected *an opening shot of* around 210p in a bidding auction for Hogg and that an eventual take-out price for the *group would be in the region of* 250p a share. Hogg shares finished 23 stronger at 205p.

There was widespread speculation as to the identities of the other companies involved in talks with Hogg. Inchcape, which held takeover talks with another UK insurance broker, C.E. Heath, last year, was seen as a possible bidder, as was Heath, JIB Group and Hambros Insurance Services.

There was also talk that a number of US companies might be interested in Hogg, principally Aon Corporation.

ICI recovery

Shares in ICI recovered from recent weakness, *improving 16* to 302p, as some of the gloomier analysts appeared to be taking a more benign view of the company.

Hoare Govett, a former company *broker which has been consistently bearish*, argued that stabilisation in mainland Europe and a firmer base to *the sector might render* ICI slightly more attractive.

Although he stressed he was not yet changing his stance, Mr Martin Evans of Hoare said: "Given anecdotal comments from the European chemical industry... [ICI could]... surprise both internal and external observers by the magnitude and momentum of the *response* to better trading conditions."

Encouragement from a *strong overnight performance* on Wall Street fuelled interest in the high profile debut of *House of Fraser*. The confidence that fed into the UK market from New York encouraged institutions to take larger *positions in the new stock*.

The shares closed at a premium of 6¼ to their issue price of 180p and turnover of 22m shares was the second heaviest in London. However, the initial performance of the largest flotation this year did no more than match market expectations considering the favourable trading conditions. And some analysts were slightly disappointed at the volume traded.

Much of the business was conducted by S.G. Warburg, the company broker, and most *of the buying came from* UK institutions.

Anticipation that Boots would sell its pharmaceutical division prompted *active trading* in the stock. Interest was sharpened by Boots' appointment of Credit Suisse to handle a future unbundling of the drugs arm. UBS was a keen buyer of the stock. The shares *added 12 at 519p in a volume* of 3.5m.

Confirmation by Associated British Foods that it was in *talks to sell its Baker's Oven* chain of bakery outlets to Greggs pushed the AB Foods' shares up 6 to 583p in thin *turnover. Greggs was* unchanged at 743p.

International conglomerate Hanson fell 4 to 265p with one US brokerage said to have been an active seller.

Pharmaceutical group Glaxo improved 12 to 618p after recent underperformance as the shares responded to earlier strength on Wall Street and the company confirmed that Serevent, its anti asthma treatment went on sale in the US.

Media and leisure conglomerate Pearson languished after one investor sold a block of 1.8m shares at 621p, well below the market price.

Analysts said that the *shares* had outperformed the FT-SE-A All-Share index by more than 40 per cent over the past year *in spite of recent falls and* investors had used last week's purchase of Software Toolworks as an opportunity to take profits.

Pearson closed 7 weaker at *631p with 5.2m shares traded*, unusually high for the stock.

The oil sector passed what one specialist described as its first real post-Opec test, with most oil stocks moving ahead strongly after a resilient *performance by crude oil prices* which held comfortably above the $14 a barrel level.

Oil major British Petroleum *moved up 7 to 357p on turnover* of 14m, amid talk of good US demand, while Shell Transport, after Hoare Govett reaffirmed its positive stance on the stock, added 9 at 671p.

Lasmo continued recent good *performance, the shares adding* 5 at 129p on 9.8m shares, after support from the UK and US.

Retail bank National Westminster, the worst *performer* in the FT-SE 100 relative to the FT Actuaries All-Share index during the last quarter, added 7 at 476p amid talk of substantial switching out of Barclays. The latter settled 3 firmer at 536p.

SG Warburg spearheaded a general advance by the merchant banks, closing 21 ahead *at 778p, helped by the rally in* markets in recent sessions.

Engineering group GKN put on 13 to 555p, after Kleinwort *Benson turned* positive on the stock. Several other brokers also bought the stock on a view that the acquisition of Westland Group will enhance earnings.

Volume in aerospace and motor components group Lucas Industries jumped to 8.1m and the shares moved 4 ahead to 193p, after Credit Lyonnais reiterated its buy recommendation. The broker was also a buyer of British Steel – ¾ ahead at 141¾p on turnover *of 9.3m – following a* visit to the company.

Hard-hit Fisons rose 3 to 132p with the help of a buy *recommendation from BZW*.

Bid speculation returned to Brent International as the shares gained 3 to 118½p. The improvement marked a 20 per cent rise in the troubled chemical company's share price since their low just after announcing a reduced dividend and profits in early March.

Good results off the field for *Manchester United* made up for recent lost ground lost. The shares gained 15 to 675p.

Hotel group City Centre added 3 at 82p on well-received figures.

Elsewhere, Stakis was heavily traded as nil paid stock from the recent rights issue came on to the market. There were rumours that the Stakis *family had unloaded large* blocks of equity with one lump of 5.6m shares said to have been placed at 80¼. The ordinary shares *finished the day* firm at 80½p in volume of 6.5m. Turnover in the nil paid soared to 20m with the price adding a half at 8½p.

Channel tunnel operator Eurotunnel bounced 4 to 509p as market watchers pondered the implications of a reported tussle over certain aspects of the underwriting of its impending rights issue.

MARKET REPORTERS:
Steve Thompson,
Joel Kibazo, Peter John,
Christine Buckley.

■ *Other statistics, Page 20*

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (90).
BANKS (1) Sanwa, CHEMICALS (1) Bayer, DIVERSIFIED INDLS (1) Mitsubishi, ELECTRNC & ELECT EQUIP (4) Forward Tech Inds., Fujitsu, NEC, TDK, ENGINEERING (4) Hadleigh Inds., Johnson Matthey, Kelsey Inds., Meteoc, ...

EQUITY FUTURES AND OPTIONS TRADING

A recovery in stock index futures which began on Tuesday continued yesterday, *although the lead futures* contract closed off the day's peak after a poor opening in the US markets, *writes Joel Kibazo.*

The Liffe June contract on the FT-SE 100 started at 3,140, up 13 from its previous close, and moved steadily forward over the next *few hours. Buying was* mixed, coming from both independent traders (locals) and the large institutions, and *June climbed to its peak of* 3,156 over lunchtime.

Light profit-taking saw the contract surrender some of *the earlier gain, but it was* the decline on Wall Street that led to increased selling of June in the last hour of *the session.*

June finished at 3,133, up 6 from Tuesday's closing level but at a 7-point *discount to its fair value* premium to cash which stands at around 6 points. Volume was 15,265 lots.

The Liffe FT-SE Mid 250 contract ended at 3,777, up 17 from its previous close, on substantially improved turnover of 217 trades.

However, business in the Liffe traded options was dull and volume fell to 29,165 contracts from Tuesday's 37,197. The total included 14,071 lots dealt in the *FT-SE 100 option and 4,090 done in the Euro FT-SE 100* option.

■ *FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point* (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3140.0	3133.0	+6.0	3158.0	3124.0	15265	55237
Sep	-	3151.0	+7.0	-	-	0	698
Dec	-	3163.0	+6.0	-	-	0	10

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3850		3900		3950		4000		4050		4100		4150		4200	
Apr	12½	86	5½	132½	2	180½	1	230	½	279½		329½	½			

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

FT - SE Actuaries Share Indices — The UK Series

	Apr 6	Day's chge%	Apr 5	Mar 31	Mar 30	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3131.5	+0.5	3116.2	3086.4	3092.4	2822.1	3.88	6.16	19.58	28.18	1159.40
FT-SE Mid 250	3778.1	+0.4	3763.0	3752.9	3767.1	3083.7	3.24	5.35	23.01	24.97	1380.63
FT-SE Mid 250 ex Inv Trusts	3797.9	+0.3	3785.5	3776.5	3787.8	3100.9	3.38	5.78	21.56	25.18	1383.44
FT-SE-A 350	1590.4	+0.5	1583.0	1570.4	1574.1	1401.2	3.73	5.97	20.29	13.42	1205.03
FT-SE SmallCap	1911.39	+0.4	1903.70	1908.97	1921.93	1536.15	2.93	4.18	29.50	10.64	1458.79
FT-SE SmallCap ex Inv Trusts	1896.73	+0.3	1881.20	1888.05	1898.30	1545.19	3.10	4.63	26.99	10.21	1442.15
FT-SE-A ALL-SHARE	1580.52	+0.5	1573.23	1561.97	1566.15	1386.01	3.67	5.84	20.75	13.02	1218.46

■ FT-SE Actuaries All-Share

	Apr 6	Day's chge%	Apr 5	Mar 31	Mar 30	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2496.73	+1.6	2459.22	2439.98	2444.68	2170.20	3.67	4.95	25.03	30.90	988.58
12 Extractive Industries(4)	3898.38	+0.8	3867.16	3789.98	3832.29	3078.80	3.32	4.57	26.28	41.61	1063.23
15 Oil, Integrated(3)	2400.22	+1.6	2362.65	2353.96	2349.96	2080.10	3.76	5.19	23.99	31.69	970.05
16 Oil Exploration & Prod(11)	1832.46	+2.1	1794.09	1784.40	1787.81	1981.50	3.57	3.49	36.75	15.38	1050.08
20 GEN MANUFACTURERS(263)	2072.23	+0.4	2064.03	2052.77	2053.52	1692.40	3.62	4.23	30.44	16.55	1036.12

TRADING VOLUME

■ **Major Stocks yesterday**

	Vol. 000s	Closing price	Day's change
ASDA Group†	7,500	58	-¼
Abbey National†	1,000	472	-1
Albert Fisher	5,000	62	-2
Allied-Lyons†	3,700	551	+7
Anglian Water	526	523	+3
Argos	598	342	-1
Argyll Group†	2,500	261	-2½
Arjo Wiggins†	1,200	293	+4
Assoc. Brit. Foods†	515	583	+6
Assoc. Brit. Ports	427	580	-5
BAA†	1,300	985	-10
BAT Inds.†	4,200	473	+1
BET	2,800	126	-1

LONDON EQUITIES

LIFFE EQUITY OPTIONS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	62	2	10
Other Fixed Interest	1	0	14
Mineral Extraction	72	57	74

LONDON RECENT ISSUES: EQUITIES

RIGHTS OFFERS

FINANCIAL TIMES EQUITY INDICES

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

FT GOLD MINES INDEX

LONDON SHARE SERVICE

BANKS

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Cont.

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
TVX Gold	♥	431½p	—	473½p	400½p	[illegible]		
Toronto-Dom.		10⅝xd	−⅛	11¼	10⅛	3,062	4.0	
Trans Can Pipe	♥	8⅝	−⅛	10½	8⅝	1,538	4.8	

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind.		£22¼	—	£23½	£13½	1,329	3.3	16.2
Barlow		£3⅛	−⅛	£4⅛	£3⅛	749.6	8.6	6.9
Gold Flds Prop R.		90	−2	105	86	8.20	11.1	8.0
MK Props.	s	90	—	95	68	3.02	9.9	37.0
SASOL	♥	294	−7	361	284	1,886	5.3	–
SA Brews		£11⅛	−⅛	£15⅞	£11⅛	5,982	2.5	18.3
Tiger Oats		663	—	838	663	896.0	2.5	14.0
Tongaat-Hulett	†	544	−7	589	434	467.2	2.7	15.2

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

□ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK [illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1225 a year for each security shown, subject to the Editor's discretion

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro SS

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service

SS Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Thornton Unit Managers Ltd (1200)F
33 Queen Street, London EC4R 1AX 071-246 3000

[illegible]

Waverley Unit Tst Mngmt Ltd (1000)F
13 Charlotte Sq, Edinburgh 031-225 1551

[illegible]

Whittingdale Unit Tst Mngmt Ltd (0830)F
2 Honey Lane, London EC2V 8BT 071-600 0482

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

INSURANCES

[illegible]

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

[illegible]

Abbey National Life Plc
287 St Vincent Street, Glasgow 041 305 8800

[illegible]

Acuma Life Assurance Ltd
The Glanty, Egham, Surrey TW20 9AT 0784 470333

[illegible]

Canada Life Group
High St, Potters Bar, Herts. EN6 5BA

[illegible]

Century Life Plc
5 Old Bailey, London EC4M 7BA

[illegible]

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INVESCO International Limited - Contd.

Jupiter Tyndall (Jersey) Ltd

Lloyds Bank Trust Co (CI) Mngrs

Lombard Odier (Jersey) Ltd

The Portugal Fund Limited

Royal Bank of Canada Intl Fd Mgt Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

Schroder Mngt Services (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

Delphis Intl Investments (n) SICAV

Dresdnerbank Asset Mngmt SA

E.T. Investment Management Ltd

Eagle Star - Global Assets Fund

Fidelity Funds (n)

Fleming Group (n)

Foreign & Colonial Emerging Markets Ltd

Fortunes Luxembourg SA (n)

INVESCO International Limited

Jupiter Tyndall Global Fund

Liberty ALL-STAR World Portfolio-Gutz Fund

Lloyds Bank Luxembourg

Sarasin Investment SICAV (n)

Scudder International Selection Fd (n)

Scottish Equitable Int'l Fund SICAV (n)

Sun Life Global Management Ltd

Thornton Investment Management Ltd

S.G. Warburg Asset Mgmt Luxembourg SA

LUXEMBOURG (REGULATED)(**)

Alliance Capital

Credit Commercial de France

Credit Lyonnais Rouse (Bermuda) Ltd

Espirito Santo Investment Mgmt (SICAV)

Europa Value Fund (n)

Fidelity Investment (CI) Ltd

The First Korea Smaller Companies Fund

Fleming Group

Foreign & Colonial Emerging Markets Ltd

Gartmore Luxembourg S.A.

Global Funds Management S.A. (n)

Lloyds Bank Luxembourg

Lombard Odier Invest (n)

Merrill Lynch Asset Management

Scudder, Stevens & Clark

The Dragon Fund Sicav

Scudder, Stevens & Clark - Contd.

Target International Inc

Templeton Emerging Asia

Templeton Worldwide Investments

Transworld Bond Trust

US Pacific Stock Fund (n)

Unico Financial Services SA Lux

"WINTERTHUR" Fund Mngmt Co (Lux) SA

World Bond Fund--SICAV (r)

World Trust Fund

Yamaichi Advanced Technology Fund

Yamaichi 1992 DM Fund SICAV (n)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

ATSP Management Ltd

Abtrust Fund Mngrs (Guernsey) Ltd

Adig Investment

Asian Malaysian Growth Fd (Cayman) Ltd

Alliance Capital

Barclays International Funds

Baring International Group

The Bahamas Fund Ltd

Bermuda Capital Company Ltd

Banque de Gestion Privee, Paris

Banque Paribas

Butterfield Management Co Ltd

DWS Deutsche Ges. F. Wertpapiersp

Dalwa Investment Trust Co Ltd

Dalwa Intl Capital Management (H.K.) Ltd

Dalwa Japanese Equity Warrant Fund

Delta Lloyd Bank Fund Management

Deutscher Investment-Trust

Dublin 2 Select Asset Management

EBS Overseas Fund Ltd

Emerging Markets Management

Europe 1992

Fidelity Investments

Finsbury Capital Management Ltd

First Frontier Fund

Five Arrows Chile Fund Ltd

Foreign Fund

Fontaine Growth Fund Limited

Frankfurt Trust Investment-GmbH

GIM Fund Management (Bermuda) Ltd

GT Chile Growth Fund Ltd

GAM Associates

GCM Investment Management (HK) Ltd

Gale Currency Funds

Global Asset Management

Global Government Plus Fund

Global Investment Ltd

Goldman Sachs

Group One International Ltd

International Fund Administration Ltd

The Japan Fund N.V.

Jardine Fleming Inv Mngt Ltd

Jardine Fleming Unit Trusts Ltd

Johnson Fry Securities Ltd

Korea Investment Trust Co Ltd

Lehman Brothers Sports Growth Fund

Lloyds Bank International (Bahamas) Ltd

Lloyds Bank Fund Management

Lyxor Asia Ltd

Malaysia Fund (Labuan)

Malaysia Growth Fund

Man International Futures

Mercury Asset Management Ltd

Merrill Lynch Asset Management

Morgan Stanley Japanese Warrant Fund NV

Nomura International Ltd

Northern Star Fund Management Ltd

Orbitex

Pakistan Fund

Pacific Strategic Investment Trust

Portuguese Investment Fund Ltd

Putnam Emerging Health Sciences Trust

Quantum Group

Regent Fund Management Ltd

Republic New York Funds

Royal Bank of Canada Intl Money Market Fd

Sabre Futures Fund

Schroders Asia Ltd

Schroder Investment Management Ltd

Scudder, Stevens & Clark Inc

Smith Barney Funds

Sordic Asset Management

Carl Spaengler KAG

State Street Banque SA

Templeton Galbraith & Hansberger Ltd

The Thai Development Capital Fd

The Thai Prime Fund Limited

The Thailand Fund

The Thailand Intl Fund Ltd

Thornton Investment Management Ltd

Tokai Bank

Ultra Sector Fund Ltd

Value Trac Investment Management Ltd

Vestaur Asset Management Corp

The Warburg Fund Limited

Wellington Fd Mngrs (Bermuda) Ltd

Worldwide Limited

Yamaichi Capital Management (Guernsey) Ltd

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Dollar rally continues

A fairly small cut in the German repo rate yesterday helped the dollar and sterling maintain a firmer tone on foreign exchanges, *writes Philip Gawith.*

The US currency was also helped by a story in the Washington Post newspaper saying that the Federal Reserve was unlikely to change short-term interest rates until financial markets calmed.

The Bundesbank cut the repo rate by three basis points to 5.73 per cent - in line with market expectations following tighter money market conditions recently.

The dollar closed in London at DM1.7151 against the D-Mark from DM1.7071 on Tuesday. Sterling rose slightly against the US currency to finish at $1.4678 from $1.4638. It was also stronger against the D-Mark finishing nearly two pfennigs higher at DM2.5173 from DM2.4987.

Elsewhere in Europe the D-Mark was generally firmer after a range-bound trading session. The Belgian franc was barely changed after the central bank cut rates by 10 basis points to 5.95 per cent.

The Italian lira weakened following signs of dissension among the Freedom Alliance coalition which won last week's election.

■ The Washington Post story quoted Fed officials saying rates would not be moved until markets had stabilised and the impact of the fall in share prices and rise in long term interest rates had been assessed.

Although higher US rates - nobody is suggesting they will fall - should be dollar positive, the market appears to have reasoned that interest rate stability will also favour the dollar as it will calm US equity and bond markets, encouraging capital inflows.

Mr David Cocker, currency analyst at Chemical bank, said the improved performance of the dollar and sterling - a reversal of last week's move - indicated a possible "return to looking at the fundamentals rather than looking at inflation."

Analysts, however, questioned the durability of these moves, saying they depended on a sustained recovery in the stock and bond markets which was by no means assured.

Mr Mark Geddes, treasury analyst at Midland Global Markets, said he remained negative on sterling in particular, which had "risen on the dollar's coat-tails more than anything else." He said it was "difficult to find anything that might go right, either on the political or the economic side for sterling."

However Mr Tony Norfield, UK treasury economist at ABN-AMRO, said there were other factors supporting sterling. These include a shrinking negative interest differential, vs the D-Mark, and a reasonable yield premium on sterling bonds over DM bonds.

He said these premia should attract capital inflows. Mr Norfield said econometric estimates also suggested that the pound was fairly valued "in the mid-2.50's".

Short sterling futures also continued their recovery with the June contract finishing three basis points firmer at 94.50.The December future was 12 basis points firmer at 94.03. The Bank of England, meanwhile, put £592m into the discount market compared to a forecast shortage of £750m.

■ German call money remained fairly tight after the Bundesbank surprised the market by withdrawing a net DM1.8bn from the banking system yesterday. Rates were in a fairly wide range from 5.85 per cent to 6.05 per cent, slightly up from Tuesday's 5.80/6.00 per cent. Opinion seems to favour rates moving higher.

There was little movement in the futures market with the June euromark contract finishing three basis points lower at 94.54.

■ The recent woes of the Turkish lira continued yesterday with the currency falling by 20 per cent against the dollar to trade at TL40,000/$, against Tuesday's close at TL32,000, before recovering slightly to TL39,500.

The central bank set its official dollar rate at TL39,933, up from TL32,053 on Tuesday. The bank, which effectively devalued its official dollar rate by 28 percent on Tuesday, calculates the rate as the average dollar offer of 10 banks on the interbank market at 1200 GMT.

The lira was weakened by falls in overnight money rates, at 90 per cent against 120 per cent when trading opened. Analysts said that now that the bank had decided to devalue, it was predictable that speculators would try and drive the currency lower.

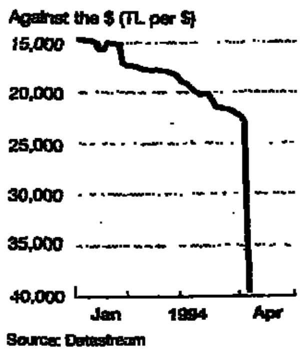
In Portugal, meanwhile, the escudo stabilised as the central bank persisted with its policy of high interest rates. The currency closed at Es101.3 against the D-Mark from Es101.8. The bank again injected funds into the money market at 13 per cent and 14 per eent, compared to a previous rate of 10 per cent.

Mr Miguel Beleza, governor of the Bank of Portugal, told TSF radio that he believed his strategy would allow key lending rates - such as banks' prime rate - to continue falling.

The Belgian franc finished at BFr20.60 against the D-Mark from BFr20.61 before the trimming of rates. Analysts said Belgium had sufficient margin over Germany to cut rates.

Turkish Lira

Against the $ (TL per $)



Source: Datastream

■ **Pound in New York**

Apr 6	— Latest —	— Prev. close —
£ spot	1.4695	1.4840
1 mth	1.4678	1.4620
3 mth	1.4646	1.4590
1 yr	1.4584	1.4530

■ **OTHER CURRENCIES**

Apr 6	£	$
Hungary	152.429 - 152.828	103.870 - 103.970
Iran	2574.00 - 2580.00	1748.00 - 1750.00
Kuwait	0.4376 - 0.4385	0.2982 - 0.2987
Poland	32657.7 - 32688.9	22254.0 - 22254.0
Russia	2593.60 - 2605.35	1767.00 - 1775.00
U.A.E.	5.3890 - 5.3920	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Apr 6		BFr	DKr	FFr	DM	I£	L	Fl	NKr
Belgium	(BFr)	100	19.03	16.60	4.855	2.008	4686	5.449	21.05
Denmark	(DKr)	52.54	10	8.724	2.551	1.054	2462	2.863	11.06
France	(FFr)	60.23	11.46	10	2.924	1.206	2822	3.282	12.68
Germany	(DM)	20.60	3.920	3.420	1	0.413	965.0	1.122	4.335

EMS EUROPEAN CURRENCY UNIT RATES

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ STERLING FUTURES (IMM) £62,500 per £

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

UK INTEREST RATES

LONDON MONEY RATES

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

BASE LENDING RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

صكنا من الاصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Apr 6 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Apr 6 / Frs.)

[illegible]

DENMARK (Apr 6 / Kr)

[illegible]

FINLAND (Apr 6 / Mkk)

[illegible]

FRANCE (Apr 6 / Frs.)

[illegible]

GERMANY (Apr 6 / Dm.)

[illegible]

ITALY (Apr 6 / Lire)

[illegible]

NETHERLANDS (Apr 6 / Fls.)

[illegible]

NORWAY (Apr 6 / Kroner)

[illegible]

SPAIN (Apr 6 / Pts.)

[illegible]

SWEDEN (Apr 6 / Kronor)

[illegible]

SWITZERLAND (Apr 6 / Frs.)

[illegible]

PACIFIC

JAPAN (Apr 6 / Yen)

[illegible]

HONG KONG (Apr 6 / H.K.$)

[illegible]

MALAYSIA (Apr 6 / MYR)

[illegible]

SINGAPORE (Apr 6 / S$)

[illegible]

AUSTRALIA (Apr 6 / Aust$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Apr 6 / Can $)

4 pm close

[illegible]

MONTREAL (Apr 5 / Can $)

4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Apr 5 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, April 6, 1994

	Stocks Traded	Closing Prices	Change on day
Ricoh	9.4m	875	+20
Isuzu Motors	8.7m	473	+2
Sumitomo Coal	5.3m	903	+48
NEC	4.9m	1,120	+20
Sanyo Elect	4.4m	506	+8
Honshu Paper	4.4m	788	+40
Nippon Steel	3.9m	336	
Fuji Heavy	3.8m	411	-2
Chino	3.8m	1,300	
Hitachi	3.3m	941	+7

INDICES

	Apr 6	Apr 5	Apr 4	1994 High	1994 Low
Argentina General (29/12/77)	(u)	18546.52	17832.92	25479.40 16/2	17832.92 4/4
Australia All Ordinaries(1/1/80)	2064.1	2050.0	(c)	2340.80 3/2	2050.80 5/4
All Mining(1/1/80)	1007.1	992.3	(c)	1136.10 3/2	988.70 4/3
Austria Credit Aktien(30/12/84)	432.12	429.00	(c)	489.66 2/2	429.00 5/4
Traded Index(2/1/91)	1123.61	1113.57	(c)	1222.25 1/2	1113.57 5/4
Belgium BEL20 (1/1/91)	1488.06	1465.98	(c)	1542.65 9/2	1462.76 30/3
Brazil Bovespa (29/12/83)	(u)	14280.0	13550.0	16156.99 30/3	3899.90 3/1
Canada Metals Minls♦(1975)	(u)	3616.35	3577.51	3879.59 18/3	3523.53 21/2
Composite♦ (1975)	(u)	4273.29	4230.10	4599.99 23/3	4230.10 4/4
PortfolioSS (4/1/83)	(u)	1981.20†	1973.56	2182.89 1/2	1973.66 4/4
Chile IPGA Gen (31/12/80)	(u)	3988.8†	3901.2	4867.80 4/2	3901.20 4/4
Denmark CopenhagenSE(3/1/83)	387.42	385.03	(c)	415.79 2/2	370.74 3/1
Finland HEX General(28/12/90)	1778.7	1722.8	(c)	1972.09 4/2	1601.19 3/1
France SBF 250 (31/12/90)	1442.15	1426.47	(c)	1585.20 2/2	1418.37 30/3
CAC 40(31/12/87)	2128.22	2100.25	(c)	2355.93 2/2	2081.94 31/3
Germany FAZ Aktien(31/12/58)	828.02	815.86	(c)	855.67 4/1	776.33 2/3
Commerzbank(1/12/53)	2367.1	2339.8	(c)	2459.09 4/1	2221.29 2/3
DAX (30/12/87)‡	2191.20	2158.29	(c)	2267.98 3/1	2020.33 2/3
Greece Athens SE(31/12/80)	1000.77	1003.79	998.71	1194.58 18/1	898.21 3/1
Hong Kong Hang Seng(31/7/64)	9234.31	(c)	(c)	12201.09 4/1	8667.93 21/3
India BSE Sens.(1979)	3842.3	3812.1	3780.8	4287.90 28/2	3464.00 5/1
Indonesia Jakarta Comp.(10/8/82)	473.967	480.98	485.91	612.89 5/1	473.97 6/4
Ireland ISEQ Overall(4/1/88)	1824.98	1801.05	(c)	2082.16 20/1	1801.05 5/4
Italy Banca Comm Ital (1972)	732.52	724.53	(c)	735.11 1/4	598.88 10/1
MIB General (4/1/94)	1170.0	1159.0	(c)	1170.00 6/4	944.00 10/1
Japan Nikkei 225 (16/5/49)	19696.74	19563.21	19122.22	20677.77 16/3	17369.74 4/1
Nikkei 300 (1/10/82)	292.99	291.08	285.21	304.25 1/3	258.22 4/1
Topix (4/1/68)	1600.41	1588.83	1560.38	1653.27 16/3	1445.97 4/1
2nd Section (4/1/68)	2236.25	2209.12†	2191.15	2238.25 6/4	1873.33 4/1
Malaysia KLSE Comp.(4/4/86)	984.51	939.31	928.33	1314.46 5/1	928.33 4/4
Mexico IPC (Nov 1978)	(u)	2234.15	2265.49	2881.17 8/2	2234.15 5/4
Netherland CBS TRtnGen(End 83)	425.6	417.4	(c)	454.99 31/1	417.40 5/4
CBS All Shr (End 83)	275.6	270.5	(c)	294.80 31/1	268.00 31/3
New Zealand Cap. 40 (1/7/86)	2122.85	2049.17	(c)	2438.94 3/2	2049.17 5/4
Norway Oslo SE(Ind)(2/1/83)	1129.03	1129.17	(c)	1211.18 28/2	1072.87 3/1
Philippines Manila Comp (2/1/85)	2690.34	2633.01	2653.70	3368.37 4/1	2507.33 9/3
Portugal BTA (1977)	3093.4	3098.3	(c)	3226.60 18/2	2619.80 3/1
Singapore SES All-S'pore(2/4/75)	540.25	530.01	523.29	641.81 4/1	523.29 4/4
South Africa JSE Gold (28/9/78)	(u)	1917.0♥	(c)	2331.00 4/1	1749.09 14/2
JSE Indl. (28/9/78)	(u)	5801.0♥	(c)	6140.00 18/3	5448.00 19/1
South Korea KoreaCmpEx(4/1/80)**	863.04	(c)	860.47	974.26 2/2	855.37 2/4
Spain Madrid SE (30/12/85)	322.16	319.03	310.18	358.31 31/1	310.18 4/4
Sweden AffarsvardsGen (1/2/37)	1468.4	1424.5	(c)	1603.80 31/1	1403.89 31/3
Switzerland Swiss Bk Ind (31/12/58)	1336.87	1328.43	(c)	1423.34 31/1	1280.64 2/3
SBC General (1/4/87)	993.08	984.17	(c)	1086.29 31/1	973.35 2/3
Taiwan WeightedPr.(30/6/66)**	5481.86	(c)	(c)	6454.52 6/1	5194.63 19/3
Thailand Bangkok SET (30/4/75)	(c)	1201.95	1196.59	1753.73 4/1	1196.59 4/4
Turkey Istanbul Comp.(Jan 1986)	18859.1	17500.96	16358.48	20993.60 13/1	12980.70 24/3
WORLD MS Capital Int (1/1/70)§	602.1*	600.6	592.4	641.60 1/2	581.60 4/4
CROSS-BORDER Eurotrack 100(26/10/90)	1446.03	1426.85	(c)	1549.19 31/1	1393.60 2/3
Euro Top-100 (26/6/90)	1239.29	1221.88	1213.15	1311.01 2/2	1202.49 2/3
JCapalDgns (31/12/88)	(u)	299.34	298.56	385.19 5/1	290.28 21/3
Barings Emerg.(7/1/92)	149.15	147.35	153.87	182.72 14/2	147.35 5/4

** Sat Apr 2 : Taiwan Weighted Price 5420.98; Korea Comp Ex 855.37. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Apr 6 - 2184.89 +7.80.

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett.Price	Change	High	Low	Est. vol.	Open Int.
Apr	2125.0	2136.0	+28.0	2147.0	2122.0	21,389	27,646
May	2131.5	2137.0	+27.5	2146.0	2131.5	640	8,593
Jun	2114.0	2120.0	+28.0	2130.0	2108.0	591	21,321

Open interest figures for previous day.

US INDICES

Dow Jones	Apr 5	Apr 4	Mar 31	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3675.41	3593.35	3635.96	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	98.86	98.77	100.46	105.81 (21/1)	98.77 (4/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1647.11	1606.94	1635.19	1862.29 (2/2)	1606.94 (4/4)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	199.00	192.99	196.28	227.86 (3/1)	192.99 (4/4)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3698.15 (3633.08) Low 3625.02 (3520.80) (Theoretical♦)
Day's high 3690.30 (3635.38) Low 3593.35 (3552.18) (Actual♦)

Standard and Poors	Apr 5	Apr 4	Mar 31	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	448.29	438.92	445.76	482.88 (2/2)	438.92 (4/4)	482.88 (2/2/94)	4.40 (1/6/32)
Industrials♥	524.78	513.34	521.16	568.69 (2/2)	513.34 (4/4)	568.59 (2/2/94)	3.62 (21/6/32)
Financial♥	42.33	41.39	42.03	46.58 (31/1)	41.39 (4/4)	48.48 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	248.41	243.14	247.06	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	440.69	434.13	443.11	487.89 (2/2)	434.13 (4/4)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	750.95	727.41	743.46	803.93 (18/3)	727.41 (4/4)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Mar 31	Mar 25	Mar 18	Year ago
Dow Jones Ind. Div. Yield	2.81	2.70	2.62	3.04
	Mar 30	Mar 23	Mar 16	Year ago
S & P Ind. Div. yield	2.61	2.39	2.37	2.49
S & P Ind. P/E ratio	23.55	24.83	24.58	26.13

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	448.45	448.10	-0.55	451.00	447.80	98,285	182,187
Sep	451.15	449.90	-	451.15	449.90	1,419	6,578
Dec	453.00	452.00	-	453.00	452.00	165	4,934

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Telefonos	6,797,500	57¾	+¾
Woolworth	5,321,600	14¾	+1¾
Wal-Mart	4,507,000	26¼	+⅞
Gen Motors	4,158,000	57½	+2½
Chrysler	3,923,300	54½	2⅝
Merck	3,311,000	30⅝	+1
RJR Nabisco	3,071,100	5⅝	+¼
Exxon	3,103,100	61⅛	+⅛
Philip Morris	2,805,800	59	-⅛
CocaCola	2,685,200	40⅝	+¼

■ TRADING ACTIVITY

● Volume (million)

	Apr 5	Apr 4	Mar 31
New York SE	365.971	342.852	403.581
Amex	18.675	20.854	25.719
NASDAQ	330.808	313.722	413.951
NYSE			
Issues Traded	2,813	2,806	2,801
Rises	2,156	371	746
Falls	324	2,110	1,536
Unchanged	333	325	519
New Highs	6	3	4
New Lows	105	649	500

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

4 pm close April 6

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Prices	Chng. Prev.
58⅛	50⅞	Amoco	2.20	4.1	14	5898	54	52⅞	53⅝	-⅛
9¾	7	AmpcoPtt	0.10	1.2	6	12	8⅝	8½	8⅝	+⅛
4⅝	3⅛	Amre Inc	0.12	3.2	17	11	3¾	3½	3¾	+⅛
32	29⅜	Amsouth	1.40	4.5	10	382	30⅞	30⅛	30⅞	+½
4¼	3⅜	Anacomp			14	334	4	3⅞	3⅞	
50¼	42⅛	Anadarko	0.30	0.6	68	2231	48	45⅝	48	+1¾
31⅛	23⅜	Analog			28	3011	28¾	27⅛	28¾	+1½
29⅜	24½	Angelica	0.94	3.7	23	69	25⅛	25¼	25⅛	
53½	47⅛	AnBsch	1.44	2.8	24	4622	52¼	51⅞	52⅛	
28¾	25½	ANR PpePf	2.67	10.0		2	u26¾	26¾	26¾	
34	28⅛	Anthem			19	308	29¼	28⅝	29	-¼
18⅜	14¾	Anthony In	0.44	2.8	15	41	15¾	15⅜	15⅝	+⅛
52½	45	Aon Cp	1.92	4.0	11	379	47⅝	46⅞	47½	+⅝
26⅞	22¼	Apache Crp x	0.28	1.2	33	1746	23⅞	23	23⅛	-⅜
10⅝	9½	Apex Mun F	0.73	7.5		368	9⅞	9¾	9¾	
18	14⅛	APH			26	686	15¼	14⅞	15⅛	
7⅜	5	Appld Mag			2	166	6⅜	6⅜	6½	-⅛
22⅝	16¼	Appl Pw A	0.12	0.6	34	71	21⅝	21⅛	21⅛	-¼
27⅛	22⅝	ArchDn	0.10	0.4	17	2984	24¼	23⅞	24	+⅛
50½	43⅛	Arco Chemi	2.50	5.6	18	482	44½	44¼	44⅜	+⅛
9	6⅜	Arida	0.28	4.3	25	2983	6⅝	6½	6½	-⅛
40	36½	Arida Pf	3.00	8.1		5	37¼	37¼	37¼	-⅛
51⅞	47¼	Armco 4.5P	4.50	9.4		9	49	48⅛	48⅛	-½
6⅞	4½	Armco			1	2570	5⅛	4⅞	5⅛	+⅜
29	23⅛	Armco 2.1P	2.10	8.7		z100	24¼	24¼	24¼	
57½	49⅜	ArmstW	1.20	2.1	42	1465	57¼	56⅝	56¾	+⅜
45⅛	36⅛	Arrow Elec			15	690	39⅜	38⅝	38⅝	-¼
7¾	5	Artra Grp			0	29	5⅜	5⅛	5⅜	+⅛
33¾	27⅜	Arvin Ind	0.76	2.6	15	157	28⅞	28⅜	28⅞	+⅜
27⅝	21⅜	Asarco	0.40	1.7	13	1637	23¾	23¼	23⅜	-⅝
31¼	27⅜	Ashld Coal	0.40	1.4	11	12	28⅛	28⅛	28⅛	
44½	34	AshOil	1.00	2.5	14	3496	41⅛	40⅝	40⅝	-⅜
25⅝	16⅝	Asia Pac F	0.27	1.4		284	18¾	18½	18¾	+¾
2⅝	1⅞	Asset Inv	0.20	9.4	1	121	2¼	2	2⅛	-⅛
36⅜	31¼	Ass Nt Gas x	0.12	0.3	23	36	34½	34⅛	34½	+¼
283½	227	Atl Rich 2	2.80	1.2		z100	227	d227	227	
38⅞	34	Atlnta Gas	2.08	5.9	15	145	35⅛	34⅞	35	+⅜
9¼	8	Atlnta Sos	0.28	3.2	9	2	8⅝	8⅝	8⅝	+¼
21¾	19¾	Atlntc Egy	1.54	7.6	11	191	20⅝	20¼	20⅜	-⅛
112⅛	92½	AtlRich	5.50	5.8	57	2740	96⅛	94¾	95½	
10	4¼	Atlas			1	51	9	8⅞	9	+⅛
30⅛	26⅛	Atmos Engy	0.88	3.3	12	33	27	26⅝	26⅝	-¼
12½	8¼	Atwds ADR	0.46	5.2	4	1552	8⅞	8⅝	8⅞	+⅛
24⅜	17½	Augat	0.40	1.9	25	292	20¾	20¼	20¾	+¼
12⅜	9	Austria Fd	0.10	0.9		174	10¼	9¾	10	+⅛
55½	50¼	AuData	0.52	1.0	23	3040	51⅝	51	51⅝	+¼
20¼	14½	Avemco	0.44	2.7	12	53	16⅜	16¼	16¼	-⅛
19	14¾	Avnet	0.04	0.3	2	3922	15⅛	14⅞	14⅞	-⅜
45	36¾	Avnet	0.60	1.5	21	302	40	38¾	40	+1
58⅞	48⅜	AvonPr	1.80	3.1	16	4122	58¼	57⅝	57⅞	-¼
14¼	11⅞	Aydin Corp			12	100	12⅞	12½	12½	-⅛
7⅞	6⅛	Aztar			23	534	6⅝	6¼	6½	

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1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Prices	Chng. Prev.
38¾	34¼	BCE	2.68	7.4	240	373	36¼	36	36⅛	+⅛
9½	7⅛	BET ADR	0.15	2.0	30	2	7⅜	7⅜	7⅜	
3⅞	3¼	Bairnco	0.20	5.9	5	89	3⅜	d3¼	3⅜	
17⅞	16¼	Baker Fent	2.44	14.5		184	16⅞	16⅝	16⅞	+⅛
22⅛	17	BakerH	0.46	2.6	41	6968	18¼	17⅞	18	-⅛
27⅛	22¾	Baldor Elc	0.40	1.7	22	68	23⅞	23⅛	23⅞	+½
30⅜	24⅜	BallCp	0.60	2.4	20	1090	25⅜	24¾	25⅜	+½

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4 pm close April 6

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close April 6

AMEX COMPOSITE PRICES

4 pm close April 6

AMERICA

Dow retreats after midday drop in bonds

Wall Street

US share prices fell back yesterday morning as a sudden drop in bond prices near midday left investors wondering whether Tuesday's rally was only a pause in a continuing retreat by the financial markets, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 10.66 lower at 3,664.75, while the more broadly based Standard & Poor's 500 was down 2.24 at 446.05. In the secondary markets, the American SE composite slipped 1.37 to 439.62 and the Nasdaq composite dropped 4.44 to 746.51.

Volume on the New York SE was moderate, with 175m shares traded by 1 pm. Declines held an edge over advances by 1,051 to 985.

When the session opened, it appeared that a sense of normality had returned after successive days of routs and rallies.

After the previous day's 82-point surge by the Dow – its biggest gain since December 23, 1991 – investors appeared uncertain about the next step.

Share prices were mixed, with the blue chips coming in and out of positive territory, and smaller-capitalisation stocks showing moderate weakness as profit-takers capitalised on Tuesday's powerful advance on the Nasdaq.

A measure of urgency returned later as the price of the benchmark 30-year government bond, which had been showing slim losses during most of the morning, lurched down by nearly three-quarters of a point at midday.

Selling followed news of fresh weakness in the mortgage-backed securities market, which dragged bonds and stocks down last week.

Stocks quickly fell in step with the fixed-income action, but share prices stabilised before another broad sell-off could develop.

Four stocks were responsible for most of the Dow's decline. General Electric fell $1⅞ to $97, Philip Morris dropped $1 to $47⅞, Union Carbide shed $1 to $24¼ and United Technologies lost $1¼ at $64⅝. JP Morgan, up $1⅛ at $61⅞, bucked the trend.

General Motors was in demand before the release of March sales figures of motor vehicle manufacturers, climbing $1¼ to $58⅞, and after JP Morgan issued a "strong buy" recommendation. Ford inched $⅛ ahead to $60⅞ and Chrysler firmed $⅛ to $54⅛.

Promus, a hotel and casino operator, fell $3¼ to $37⅞ on heavy volume of 1.3m share on news that voters in Missouri had rejected a proposal to allow slot machines in riverboat casinos. Elsewhere, Circus Circus shed $1 to $31⅛ and Station Casinos fell $4⅜ to $14.

Canada

Toronto stocks retained early gains and at midday the TSE 300 composite index was up 13.98 at 4,287.27 in volume of 29.1m shares valued at C$378m.

Among individual stocks, Southam was up C$⅛ to C$19⅞ and Maclean Hunter ahead C$⅛ to C$17⅛.

Strength in financial services, oil and gas and utilities offset losses in precious metals, real estate and pipelines.

Mexico

Equities fell sharply in early trading in reaction to an increase in domestic interest rates.

The IPC index declined 26.4, or 1.2 per cent, to 2,207.75. Volume was low at 4.2m shares.

The interest rate on the 28-day treasury bill, or Cetes, was lifted by 2.68 percentage points to 14.31 per cent in the central bank's weekly auction. This is its highest level since November 1993.

● South Africa was closed yesterday for a public holiday.

EUROPE

Another good day for bourses as oil majors rise

Bourses had a good day overall in spite of easing in the afternoon as Wall Street found it difficult to sustain an early advance, *writes Our Markets Staff.*

PARIS kept on the positive track with a rise in the CAC-40 index of 27.97, or 1.3 per cent, to 2,128.22.

Activity was concentrated mainly in oils, as investors reacted to the rise in the price of crude and suggestions that some US investment funds had been switching aggressively out of other sectors.

Elf Aquitaine gained FFr16.40 at FFr394.40 and Total FFr9.20 at FFr316.50. The shares had been under pressure since reaching 1994 highs early in February: Elf has slipped by 8.6 per cent and Total by 10.5 per cent.

Suez, which pleased with its return to profits in 1993, improved FFr9.30 to FFr323.60; Alcatel rose FFr9 to FFr673 ahead of results, released after the close, which came in much as expected.

FRANKFURT showed some enthusiam for laggard stocks, and more for the currently fashionable cyclicals, as the Dax index rose 32.91 to 2,191.20 on the session, before drawing back to 2,184.89 after hours.

Turnover was reported as thin after Tuesday's DM6.7bn. Among the laggards, Allianz, the insurer, acknowledged a small cut in repo rates and hopes for a discount rate cut next week as it advanced DM62 to DM2,665 for a two-day gain of DM112. In the same sector, Munich Re went ex-rights worth DM299 a share, and rose a net DM79 to DM2,980.

In construction, said Mr Matthias Welticke of Merck Finck in Düsseldorf, Hochtief and Holzmann may have caught the eye of funds looking for recent underperformers, and ready to place their first-quarter inflow. The shares moved ahead DM32 to DM1,092 and DM40, or 4.5 per cent, to DM925 respectively.

In carmakers, BMW, Daimler and Volkswagen all had respectable gains but they were outperformed by Bayer and Hoechst in chemicals, the former enjoying the second day of a big buy order as it rose DM11.30 to DM393.10 after a rise of DM8.60 on Tuesday.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Apr 6 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1444.22	1445.61	1444.17	1445.73	1450.55	1449.47	1449.37	1448.03
FT-SE Eurotrack 200	1470.32	1469.53	1467.34	1469.75	1473.55	1472.61	1470.14	1468.41

	Apr 5	Mar 31	Mar 30	Mar 29	Mar 28
FT-SE Eurotrack 100	1428.65	1418.70	1416.70	1421.05	1436.59
FT-SE Eurotrack 200	1446.82	1440.06	1446.58	1452.57	1468.31

Base 1000 (26/10/90); Highday: 100 - 1451.32; 200 - 1475.28 Lowday: 100 - 1444.07 200 - 1466.64

AMSTERDAM built on Wednesday's good performance with major international stocks pulling ahead.

The AEX index finished up 7.41 or 1.8 per cent at 412.81.

The day's activity was helped by the bounce in Wall Street overnight, as well as a solid gain by Royal Dutch which has lost some 9 per cent in value since its year high at the end of January. The shares closed up Fl 5.20 at Fl 193.70, with traders putting the gain down mainly to short covering, while it was also seen to be tracking the performance in London of Shell, lifted by the general improvement in sentiment for oil stocks.

MILAN overcame some early nervousness to resume its advance although Mr Silvio Berlusconi broke off talks on a new government with his right wing allies. The Comit index finished 7.99 higher at 732.52.

Mr Nicolo Braendli at Akros Sim in Milan commented that investors remained confident a right-wing government could be formed. He said that hugely liquid domestic funds continued to buy while foreign investors, still focusing on an improving economic and corporate outlook, were refraining from taking profits after the market's recent surge.

Construction stocks had a good day on hopes that a new government will boost building and public words. Italcementi rose L520 or 3.4 per cent to L15,801, Cogefar added L74, or 3.5 per cent to L2,221 and Calcestruzzi put on L853 or 6.8 per cent to L13,355.

Telecommunications saw a rare day of profit-taking: Stet retreated L38 to L4,748 and Sip L38 to L5,797.

ZURICH was propelled higher by a strong financial sector, the SMI index adding 22.9 at 2,830.2.

CS Holding bearers, the most active issue, rose SFr9 to SFr634 after news that the group had raised its stake in its CS First Boston investment banking affiliate, in response to a request from small shareholders. SBC registered put on SFr6.50 at SFr210 and Winterthur registered firmed SFr20 to SFr700.

Brown Boveri moved forward SFr21 to SFr1,203: the heavy engineering group said it had won a $150 power plant order from Iran.

MADRID's general index rose another 3.13 to 322.16 as Tuesday's favourites maintained their appeal.

Repsol rose Pta125 to Pta4,345 in line with oil stocks around Europe, and Telefónica another Pta50 to Pta1,780 in spite of a debate on tariffs, and the implementation of Spain's policy of opening up its telecommunications sector to an expected wave of foreign competition.

ISTANBUL rose a further 7.7 per cent as the market continued to react favourably to the government's economic measures, announced late on Tuesday. The composite index added 1,358.21 at 18,859.18.

However, while equities strengthened the currency weakened further against the dollar. The Turkish lira was effectively devalued by 28 per cent on Tuesday as the government announced its three-month austerity package, and yesterday the dollar climbed TL7,500 to end at TL39,500 on the interbank market.

Written and edited by William Cochrane, John Pitt and Michael Morgan

ASIA PACIFIC

Nikkei further improves as regional markets rebound

Tokyo

The sharp upturn on Wall Street and the yen's slight retreat against the dollar moved the Nikkei 225 average moderately higher yesterday, writes Emiko Terazono in Tokyo.

The index added 133.53 at 19,698.74 after a day's low of 19,636.33 and high of 19,878.28. Institutional investors and foreigners were seen buying, while the overnight advance on the Chicago futures market also prompted arbitrage-linked purchases.

Technical selling ahead of tomorrow's option settlements eroded some of the gains.

Traders said some investors were still nervous about fluctuations on the New York stock market, while the domestic political situation also kept some people away. The opposition Liberal Democrats have been heightening calls for Prime Minister Morihiro Hosokawa to clarify his dealings with Sagawa Kyubin, the trucking company alleged to have loaned him Y100m.

In the latest twist of events, Mr Hosokawa was quoted as saying he wanted to resign on Tuesday, causing an uproar within the coalition and the opposition parties.

Volume rose to 340m shares from 223m, with increased participation from overseas investors returning to the market after the Easter holidays. Advances led falls by 743 to 385, with 144 issues unchanged.

The Topix index of all first section stocks gained 11.58 at 1,600.41 and the Nikkei 300 put on 1.91 at 292.99. In London the ISE/Nikkei 50 index firmed 3.47 to 1,310.81.

Some speculative favourites gained ground on individual buying: Sumitomo Coal Mining moved ahead Y48 to Y903 and Honshu Paper Y40 to Y788.

Machinery makers, seen as laggards recently, were firmer. Okuma rose Y21 to Y821 and Amada Y60 to Y1,160. Textiles were also higher, Toyobo adding Y19 at Y470 and Toray Industries Y30 at Y695.

Continued concern over its call rate rise hit Nippon Telegraph and Telephone, which declined Y6,000 to Y900,000. Earlier this week the cabinet raised worries over the possible negative impact of the planned rise in a number of public utility rates on the sluggish economy.

Foreign selling hurt Fuji Photo Film, which weakened Y50 to Y2,130. Some high-technology issues were lower on profit-taking, with Sony losing Y10 at Y5,990.

Toyota Motor receded Y10 to Y1,990 and Honda Motor declined Y40 to Y1,660.

In Osaka, the OSE average closed 277.36 higher at 21,963.79 in volume of 17.6m shares. In spite of the rise in the index, Aoyama Trading, the men's suits retailer, shed Y200 to Y5,390 on profit-taking.

Roundup

Wall Street's overnight rally provided the impetus for sharp rises in markets throughout the region.

HONG KONG rallied sharply on a technical rebound, although profit-taking pulled prices off the day's highs. The Hang Seng index ended 204.40, or 2.3 per cent, up at 9,234.31, having been 346 points ahead at the morning peak.

Blue chip property shares closed mixed after being propelled by strong bargain hunting early in the day. SHK Properties rose HK$1.50 to HK$54.50 and Cheung Kong added 25 cents at HK$39.75.

AUSTRALIA moved firmly ahead at the opening, the All Ordinaries index testing the 2,100 resistance level for the first time in a week, before the market edged back to finish 34.1 higher on the day at 2,084.1.

BHP surged 38 cents to A$16.74 and CRA gained 28 cents at A$16.76, while News Corp pulled back from a day's high of A$9.37 to close 3 cents ahead at A$9.15.

SINGAPORE was broadly higher, although late profit-taking left prices off their peaks as an uncertain mood continued to prevail.

The Straits Times Industrial index gained 54.08, or 2.6 per cent, at 2,115.57.

KUALA LUMPUR rose 2.7 per cent, the composite index adding 25.20 at 964.51, although doubts were expressed about the rally being sustained.

TAIWAN traded higher as demand by domestic trust funds for electronics issues intensified in late business, on expectations of good results to come, although interest in other sectors was limited.

The weighted index rose 60.88 to 5,481.36 in turnover that expanded to T$50.02bn.

MANILA surged at the close on a technical rally which took the composite index 47.33, or 1.8 per cent, higher to 2,680.01, although volume was very low.

SEOUL continued the technical advance which began on Monday, although trading remained slow in the absence of fresh factors. The composite index closed 2.57 stronger at 863.04.

NEW ZEALAND rebounded from Tuesday's low for the year, the NZSE-40 capital index moving forward 73.49, or 3.6 per cent, to 2,122.66.

BOMBAY was mildly higher on speculative demand triggered by hopes that foreign investors and Indian mutual funds would soon return as buyers. The BSE 30-share index finished 30.57 firmer at 3,842.72.

KARACHI bounced, prompting expectations of a further rise today. The KSE 100-share index gained 19.83 at 2,432.90.

Argentina lives through trial by fire

By John Barham

Argentina has been one of the worst performing Latin American equity markets so far this year, living through its first trial by fire in international financial markets since making the currency convertible, and adopting a fixed exchange rate three years ago.

In March, when the central bank spent a record $725m – 5 per cent of its reserves – to defend the peso, the Merval share index fell 16 per cent.

This week the Merval index has remained volatile in line with international markets, losing some 8.5 per cent on Monday but recouping 4 per cent the following day.

The unrest in international markets has demonstrated the fragility of funding for Argentina's 1994 external deficits, forecast at $10bn to $12bn. Recently low international interest rates, and strong demand for private company debt issues, may not bridge this gap painlessly.

The turmoil has underlined the precariousness of regulation with brokerages not closely supervised. Analysts believe that trading losses will wipe out first-quarter earnings at listed banks such as Banco Galicia and Banco Frances.

The recent sacking of Mr Martin Redrado as president of the independent CNV securities commission accentuated another troubling feature. He questioned terms under which the government negotiated with US investment banks Merrill Lynch and CS First Boston to sell shares worth $720m held by pensioners in privatised oil group YPF.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

		Dollar terms			Local currency terms		
Market	No. of stocks	Apr 1 1994	% Change over week	% Change on Dec '93	Apr 1 1994	% Change over week	% Change on Dec '93
Latin America	(210)	655.21	-1.8	+0.7			
Argentina	(25)	884.86	-5.0	-11.0	542,970.69	-5.0	-11.0
Brazil	(57)	320.74	-1.7	+37.8	398,522,129.5	+3.9	+292.2
Chile	(25)	561.09	-5.0	+1.7	960.25	-5.4	+0.7
Colombia[1]	(11)	942.44	-0.4	+46.2	1,371.23	-0.5	+47.9
Mexico	(69)	879.96	-4.3	-12.1	1,271.47	-3.9	-5.2
Peru[2]	(11)	146.13	-2.2	+20.8	194.35	-2.2	+22.2
Venezuela[3]	(12)	719.82	-1.8	+21.6	1,893.05	-1.4	+33.2
Asia	(558)	228.15	-0.0	-21.6			
China[4]	(18)	100.40	-7.6	-32.7	110.48	-7.5	-32.7
South Korea[5]	(156)	117.68	-0.2	-0.4	124.74	-0.4	-0.6
Philippines	(18)	259.60	+1.9	-23.8	340.50	+2.1	-23.3
Taiwan, China[6]	(90)	117.94	-1.2	-12.8	116.89	-1.2	-12.6
India[7]	(77)	125.53	+2.3	+7.8	138.82	+2.3	+7.8
Indonesia[8]	(37)	98.76	-1.5	-20.8	115.31	-1.4	-19.0
Malaysia	(105)	249.79	+0.7	-26.3	248.73	-0.9	-26.8
Pakistan[9]	(15)	415.58	-3.7	+7.1	573.73	-3.7	+8.6
Sri Lanka[10]	(5)	197.97	-6.1	+11.7	210.91	-6.3	+10.4
Thailand	(55)	340.42	-3.6	-28.7	341.30	-3.9	-29.4
Euro/Mid East	(103)	120.68	+0.2	-28.7			
Greece	(25)	247.92	-6.8	+8.9	420.04	-4.3	+9.2
Hungary[11]	(5)	226.88	-3.7	+38.1	277.52	-3.4	+37.5
Jordan	(13)	170.03	-3.1	+2.7	245.19	-3.4	+2.4
Poland[12]	(12)	880.99	-22.6	+7.7	1,230.99	-22.5	+11.5
Portugal	(25)	133.04	-1.6	+16.9	159.03	-0.6	+15.1
Turkey[13]	(40)	101.91	+6.9	-52.1	1,083.54	+11.5	-25.5
Zimbabwe[14]	(5)	282.84	-0.3	+40.0	334.33	-0.7	+56.5
Composite	(871)	313.40	-1.8	-11.9			

Indices are calculated at end-week, and weekly changes are percentage movements from the previous Friday. Base date: Dec 1988=100 except those noted, which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY APRIL 5 1994								MONDAY APRIL 4 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (69)	162.89	-0.4	164.98	106.82	144.56	154.03	-0.1	3.54	163.54	165.45	106.72	144.41	154.14	189.15	130.19	137.19
Austria (17)	176.02	-2.7	178.29	115.43	156.22	155.57	-1.1	1.00	180.95	183.06	118.08	159.78	157.36	195.41	139.63	142.21
Belgium (42)	161.95	-0.8	164.03	106.20	143.73	140.52	-0.2	3.64	163.20	165.10	106.50	144.11	140.85	171.69	141.92	153.41
Canada (107)	128.09	1.5	129.73	84.00	113.67	128.47	0.7	2.61	126.24	127.71	82.38	111.48	127.55	145.31	121.46	122.79
Denmark (32)	256.68	-1.3	259.98	168.33	227.80	233.61	-1.1	1.00	260.13	263.16	169.75	229.70	236.17	275.79	205.69	208.14
Finland (22)	136.62	-3.2	138.38	89.59	121.25	158.65	-2.5	0.94	141.15	142.80	92.11	124.64	162.77	156.72	79.74	79.74
France (98)	167.65	0.0	169.81	109.94	148.79	153.37	0.6	2.93	167.59	169.54	109.36	147.99	152.39	185.37	149.60	163.06
Germany (58)	135.43	0.4	137.18	88.82	120.19	120.19	0.9	1.74	134.91	136.48	88.04	119.13	119.13	142.38	107.59	114.74
Hong Kong (56)	374.64	0.0	379.46	245.68	332.49	371.68	0.0	2.86	374.65	379.02	244.49	330.84	371.68	506.58	250.94	256.25
Ireland (14)	177.56	-0.3	179.85	116.44	157.58	177.48	-0.3	3.37	178.13	180.21	116.25	157.30	178.03	209.33	165.93	157.03
Italy (60)	85.78	-0.9	86.86	56.24	76.11	105.07	-0.4	1.65	86.53	87.54	56.47	76.41	105.53	87.19	56.14	56.14
Japan (469)	153.03	1.5	155.00	100.36	135.82	100.36	2.0	0.81	150.75	152.51	98.37	133.12	98.37	165.91	124.54	136.89
Malaysia (98)	435.67	1.1	441.28	285.71	386.66	451.19	1.6	1.28	430.71	435.74	281.07	380.34	444.15	621.63	289.04	289.04
Mexico (18)	1928.40	-6.1	1953.20	1264.61	1711.39	7085.30	-5.9	0.71	2053.56	2077.50	1340.07	1813.35	7532.84	2647.08	1431.17	1623.00
Netherland (26)	191.28	-0.4	193.75	125.44	169.76	167.17	0.0	3.37	192.00	194.24	125.29	169.55	167.20	207.43	163.30	169.75
New Zealand (14)	62.06	-1.6	62.85	40.69	55.07	58.42	-1.7	3.89	63.06	63.79	41.15	55.68	59.42	77.69	45.80	45.91
Norway (23)	191.56	0.6	194.02	125.62	170.00	192.63	0.9	1.73	190.38	192.60	124.23	168.11	190.86	206.42	150.61	154.35
Singapore (44)	304.63	2.4	308.56	199.78	270.36	220.26	2.3	1.79	297.62	301.09	194.22	262.81	215.33	378.92	226.08	229.12
South Africa (60)	226.63	-2.6	229.55	148.62	201.13	245.45	-2.0	2.50	232.63	235.34	151.80	205.42	250.42	280.26	161.99	178.09
Spain (42)	138.48	3.4	140.27	90.82	122.90	144.78	3.3	4.09	133.97	135.53	87.42	118.30	140.19	155.79	116.33	130.46
Sweden (36)	204.82	1.2	207.46	134.32	181.78	241.63	1.7	1.62	202.42	204.78	132.09	178.75	237.59	230.02	159.40	163.23
Switzerland (49)	159.18	-0.5	161.23	104.39	141.27	141.89	0.3	1.64	160.00	161.87	104.41	141.29	141.45	176.56	117.90	118.70
United Kingdom (205)	187.36	0.8	189.77	122.87	166.28	189.77	0.9	3.87	185.91	188.08	121.32	164.17	188.08	214.96	170.32	174.38
USA (519)	182.80	2.1	185.15	119.87	162.23	182.80	2.1	2.90	178.95	181.03	116.77	158.01	178.95	196.04	176.91	180.55
EUROPE (724)	163.70	0.3	165.81	107.35	145.28	157.69	0.7	2.92	163.22	165.12	106.51	144.12	156.65	178.58	141.58	143.74
Nordic (113)	199.34	-0.1	201.90	130.72	176.91	204.92	0.4	1.36	199.53	201.86	130.21	176.19	204.17	220.60	151.61	154.00
Pacific Basin (750)	160.67	1.3	162.74	105.37	142.59	109.97	1.8	1.09	158.57	160.42	103.48	140.03	108.06	168.80	134.79	140.29
Euro-Pacific (1474)	161.78	0.9	163.87	106.10	143.58	128.63	1.3	1.86	160.36	162.23	104.64	141.60	126.97	170.78	139.82	141.56
North America (626)	179.40	2.1	181.71	117.65	159.21	179.04	2.1	2.88	175.67	177.72	114.64	155.13	175.38	192.73	173.70	176.97
Europe Ex. UK (519)	147.28	0.0	149.17	96.58	130.71	138.04	0.5	2.34	147.27	148.98	96.10	130.04	137.31	155.73	122.37	124.66
Pacific Ex. Japan (281)	236.27	0.3	239.32	154.95	209.69	217.28	0.4	2.69	235.65	238.40	153.78	208.09	216.34	296.21	172.89	173.96
World Ex. US (1659)	162.52	0.8	164.61	106.58	144.23	131.80	1.1	1.87	161.29	163.17	105.25	142.43	130.11	172.51	140.56	142.24
World Ex. UK (1973)	166.42	1.3	168.56	109.13	147.69	143.53	1.6	2.07	164.27	166.19	107.20	145.06	141.32	175.58	150.88	152.17
World Ex. So. Af. (2118)	167.96	1.3	170.12	110.15	149.06	146.86	1.5	2.24	165.82	167.75	108.21	146.42	144.63	178.56	152.78	154.06
World Ex. Japan (1709)	178.36	1.1	180.65	116.96	158.29	175.17	1.3	2.85	176.34	178.39	115.07	155.71	172.94	195.20	164.42	164.99
The World Index (2178)	168.27	1.2	170.44	110.35	149.34	147.65	1.5	2.24	166.19	168.12	108.45	146.75	145.46	178.97	152.85	154.13

Amendments to indices 5/4/94 applied to Germany and related regional indices. Constituent change with effect 7/4/94: Addition: Airtouch Communications (USA). Reclassification: Ralston Purina (USA) from Food Processors to Agriculture and Fishing. Latest prices were unavailable for this edition. Market Closed 6/4/94: Hong Kong.

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FINANCIAL TIMES SURVEY

DANISH BANKING AND FINANCE

Thursday April 7 1994

The financial sector is changing, but Danish bankers can look back on the last few years with satisfaction. Challenges are the same as elsewhere in the region, but – unlike other Nordic countries – the government has not had to step in. **Hilary Barnes** reports

Rescued by sound ratios

The financial services sector in Denmark is in the throes of change.

Competition is intensifying as a result of the liberalisation sweeping through the sector in Europe; the banks are moving into insurance and mortgage credit business; the insurance companies are operating their own banks; and there is tough *competition from foreign* banks for corporate banking business.

Yet, while the challenges are the same as elsewhere in the *region, Danish bankers* can look back on the last few years with satisfaction.

Losses have been incurred as a result of the recession and *the collapse in property prices*, but unlike in other Nordic countries, the government has not had to step in with rescue packages for any of the big banks.

The country's banks have been able to avoid the crises experienced elsewhere in the region because of their unusually strong solvency ratios. As a result of these, while the banking sector as a whole has *suffered losses not significantly* different from the loss ratios in other Nordic countries, it has been able, with a few exceptions, to sustain the burden.

"The worst appears now to be over," says Mr Knud Sorensen, who in addition to being chief executive of Den Danske Bank is chairman of the Bankers' Association.

Last year the banks and savings banks together made a profit of DKr6bn compared with a 1992 loss of DKr11bn. There was a similar improvement in the performance of the rest of the financial industry, including the insurance companies and mortgage finance institutions.

This performance took place against the background of a stable but slack economy. The GDP growth rate in 1993, according to preliminary estimates, was well under 1 per cent and demand for bank loans declined slightly. But the economy is also showing underlying strengths. Inflation last year was only about 1.2 per cent, and the current balance *of payments* account showed a surplus of DKr34.7bn, or about 3.9 per cent of GDP. Furthermore, the budget deficit is among the lowest in Europe.

The main cloud on the banks' horizon has been a disagreement, arising out of the collapse of a small bank, which *has soured the normally* good relations with the government. As a result future attempts to rescue banks which are in trouble could be made more difficult.

Sparekassen Nordjylland (Spar Nord), a Jutland savings bank, claims that in late-night negotiations last August the government promised it a tax write-off of DKr173m in return for its taking over most of the assets of a small, local bank, *Himmerlandsbanken*, which had run into difficulties. The legality of the write-off was subsequently questioned, leading to allegations by Spar Nord *that the government had* reneged on the promise. The case is currently the subject of a commission of inquiry being held in public in Copenhagen.

Yet, *while the financial* performance of the banks was better last year, their performance was supported by very large realised and unrealised capital gains arising from the increase in bond and share prices in Denmark and from substantial earnings from currency turbulence last summer.

"Without these special circumstances, return on equity capital would have remained weak and insufficient in the *long run to attract the new* capital needed for expansion," says Mr Sorensen.

The problems appear to be especially difficult for a group *of middle-sized regional banks*. These lack the strength to compete with the largest Danish banks or with foreign banks, argues Mr Bjarne Jensen, a former banker who is now an independent consultant on the banking industry.

The difficulties are illustrated by the weak performance of four such banks in recent years: Midtbank, which serves north-west Jutland; Sydbank, serving southern Jutland; Amagerbanken, a Copenhagen bank; and Aktivbank, serving east Jutland and wholly owned by insurance group Topdanmark.

As Mr Sorensen points out, the challenge which these and other banks, including the strongest, face is how to get their core earnings (excluding windfall profits of the sort earned in recent years) up to a more satisfactory level, and how to reduce costs.

"Even with the most favourable conceivable development in the economy, costs in the financial sector are going to be higher than is warranted by future earnings potential."

In an attempt to cut costs, reductions in staff and in the number of bank branches are already being implemented. Attempts to strengthen income are focusing on customer fees, with most of the larger banks announcing new charges for bank transactions this spring.

But, as Mr Jensen points out, this is a delicate balancing act for the banks. Fees could easily reach a level at which customers stopped using the banks' own plastic charge card, the widely-used Dankort, and switched to credit cards.

Yet, while the banks have avoided serious problems up to now, and can concentrate on building for the future, the *same has not been true for* another important Danish financial sector, insurance. The industry is still recovering from the blows inflicted on it *when the country's then two* largest insurance groups, Baltica and Hafnia, collapsed in 1992-93 as a result of ill-judged ventures by the two groups' holding companies.

Hafnia had been trying to gain control of Baltica and, together with Norway's UNI Storebrand, of the Swedish insurance company, Skandia.

When the value of the strate*gic share investments which* Hafnia made in these two companies fell dramatically in 1992, Hafnia Holding's equity capital was wiped out. Baltica's prob*lems arose from property* investments and high-risk property-related lending by Baltica Bank, which was wound up last year.

Hafnia Holding filed for bankruptcy last year, and its insurance and other operations were taken over by Codan, controlled by the UK's Sun Alliance, which thereby became the country's largest company in accident insurance. *Baltica* was restructured with the assistance of Den Danske Bank, but in the meantime Baltica Insurance is left with an ownership problem.

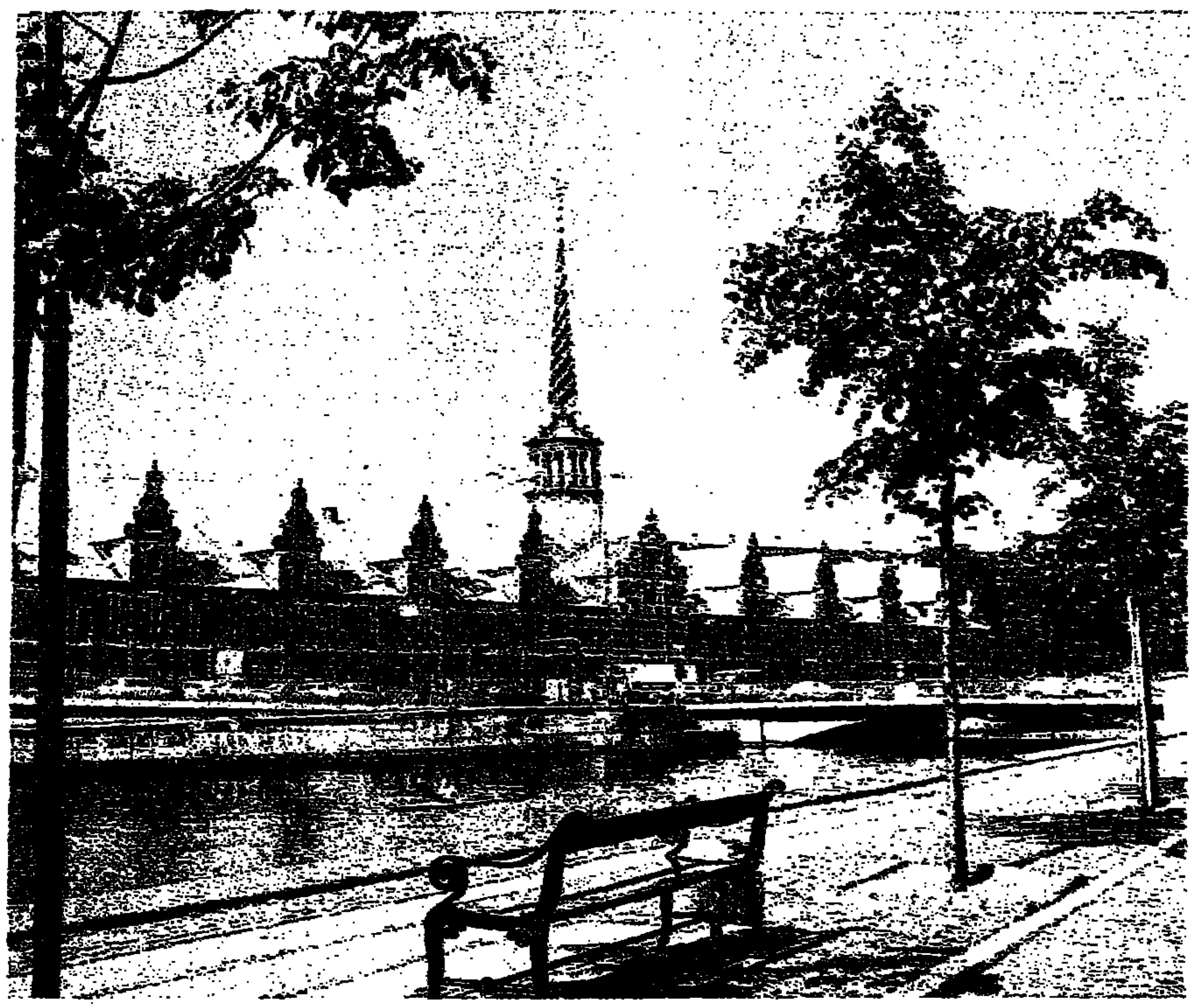
Following last year's reconstruction, Danske owns 45 per cent of the capital of Baltica: the former Baltica Holding (*now known as Gefion) holds* 32 per cent; and Codan 14 per cent. Danske is currently trying to find a Danish or foreign buyer or buyers for its own *and Gefion's holdings. If these* efforts fail, Danske itself may have to take on the full ownership of the group.

Intense competition between *Hafnia and Baltica in the late* 1980s, until 1992, created a problem for the entire insurance sector. "Competition meant that premiums did not rise between 1988 and 1992, but indemnities did," says Mr Bent *Knie Andersen, chief executive* of insurance company Alm. Brand, and chairman of the Association of Danish Insurance Companies. This year, at *last, there has been a general* 10-15 per cent increase in premium prices. "This is not pleasant for customers," he says, "but in the long run they, too, are better off if the insurance companies are sound."

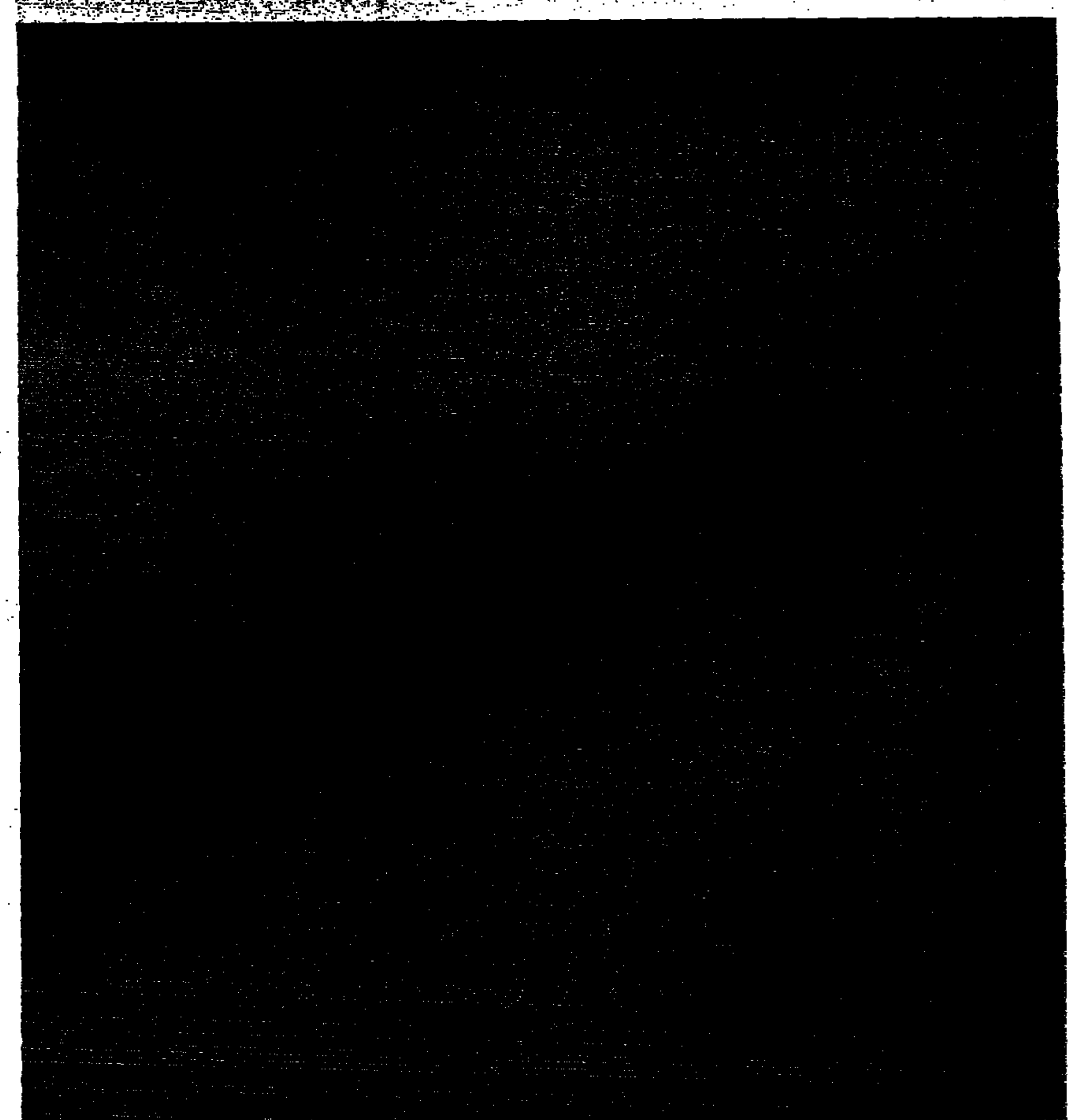
Like the banks, mortgage credit institutions were hit by the recession and falling property prices, but they recovered strongly in 1993. They play a *much bigger role in Denmark* than in most countries, financing most mortgages with bonds issued on the Copenhagen Stock Exchange.

The two largest mortgage credit institutions, Nykredit, (assets DKr417bn), and Realkredit Danmark, (assets DKr382bn), are not only larger *than Den Danske Bank*, (assets DKr356bn), but among the largest mortgage credit institutions in Europe. They are, however, meeting stiff competition *from* the banks, which have started their own mortgage credit companies, while they themselves are not permitted to open banks.

This may be one of the next structural reforms to take place.



The old stock exchange building is a Copenhagen landmark – although more and more of the trade in Danish securities is taking place in London



An official commission of inquiry is due to report later this year on bank rescues

Big banks reluctant to pick up the tab

The Danish commercial and savings banks have usually been able to absorb banks which have run into serious trouble without much fuss and without losses to depositors or other creditors but the process has gradually become more difficult.

After a long recession and pressure on their own earnings, the big banks are now reluctant to take over banks which are heading for bankruptcy because of incompetent management.

As Mr Poul J. Svanholm, chairman of Den Danske Bank's supervisory board (he is chief executive of the Carlsberg Brewery group as well) told Danske's annual general meeting of shareholders in March: "It is unacceptable for our shareholders if we have to pick up the tab for losses incurred by incompetent managements at other banks."

Danske is strong enough to pick other banks off the floor, but it already has a one third share of the domestic market. Apart from the question of losses to its shareholders, it does not feel that it should grow larger by acquisitions, said Mr Knud Sorensen, its chief executive. Unidanmark, is no more anxious to take over ailing banks than Danske, says Mr Thorleif Krarup, chief general manager.

Since 1984, according to Mr Eigil Molgaard, director general of the state's finance industry supervisory authority, a total of 51 banks has ceased to exist.

Most have been absorbed by other banks. Only four have gone bankrupt. In no case did depositors lose their money, but in the cases when banks went bankrupt, stock and bondholders did.

There were two notable bank closures in 1993, and the events which led to the closures did nothing to improve the prestige of the banking world with the general public. The two banks were Himmerlandsbanken and Varde Bank. At Himmerlandsbanken, serving the north Jutland town of Hobro, most of the assets were taken over by Spar Nord, the north Jutland savings bank, while the rest of the bank went bankrupt.

Varde Bank, based in the west Jutland port of Esbjerg, was the country's 10th ranking bank with assets of about DKr12bn.

It is being wound up after most of its assets were taken over by Sydbank, the south Jutland savings bank. Both banks tried to strengthen their capital adequacy ratios by selling bonds to their local customers, many of whom did not realise that a bank bond carries a degree of risk which is not associated with mortgage or treasury bonds.

The bondholders have lost their investments (so have the shareholders). The government reacted by ruling that in future banks may not lend money to their customers to buy bonds in the customer's own bank. As Sydbank took over more liabilities than assets from Varde Bank, Varde Bank had to pay Sydbank for the acquisitions. This required loans to Varde Bank by the Central Bank. The Central Bank loans to Varde Bank-in-liquidation total DKr4bn.

In return for the Folketing's (Parliament's) approval of the rescue plan for Varde Bank, the government agreed to set up an official commission with a directive calling on it to set out models by which in future the banking sector itself will finance the liquidation of troubled banks.

Danish Banks and Savings Banks

	1988	1989	1990	1991	1992	1993
Number of banks	214	205	195	192	177	177
Branches of foreign banks	6	6	6	5	6	
Branches	3,159	3,059	2.884	2.570	2.461	2,343
Employment (full time equivalents)	50,793	50,010	49,466	50,778	49,584	45,465

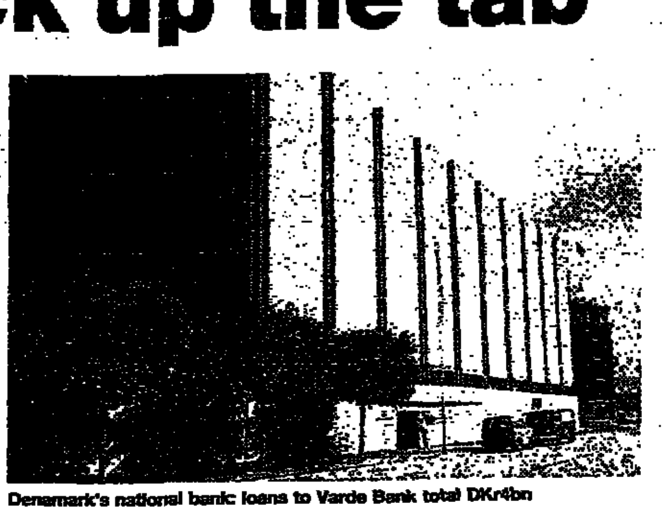
Source: FT statistics

The commission is not expected to report until later this year.

In the meantime, an important change has been made in the rules governing the banks' and savings banks' Depositor Guarantee Fund, which may help to smooth the way for bank liquidations.

The fund, which is financed by the banks themselves, guarantees that no one with net deposits in a bank of under DKr250,000 will lose money if a bank goes bust. Hitharto, the fund has only been able to guarantee depositors against loss.

The change in the fund's rules now enable the fund to issue guarantees or funds to provide for the ordered winding up of a bank, if this would be cheaper for the fund than having to meet claims from depositors after a bankruptcy. The banks feel strongly, as Mr Knud Sorensen, chairman of the Banker's Association, says, that whatever conclusion the official commission into bank rescue methods arrives at, it must avoid setting up a system with a built-in safety net.



Denamark's national bank: loans to Varde Bank total DKr4bn

"A bank must be able to go bankrupt. The risk must exist, and it must be clear to managements and supervisory boards, and they must be prepared to take the necessary steps to prevent their bank from collapsing. If the risk is removed, we shall see banks doing some stupid things, to the detriment of the banking sector as a whole and in the last resort to the detriment of the state budget," he said.

He would support a strengthening of the powers of the Supervisory Agency. He thinks, for example, that it may be necessary to give the supervisors powers to dismiss the management and supervisory board of a bank which is heading for bankruptcy and where the management is not doing enough to stop the rot.

The debacle at Himmerlandsbanken had other consequences as well. Spar Nord was convinced (and so was the public when Spar Nord published a telefax which it received from the government) that it was promised a DKr173m tax-write off for taking over most of Himmerland's assets.

When the terms of the deal slipped out, accountants pointed out that while a tax write-off is legal and correct when one company takes over another company in its entirety, a write-off, such as the one Spar Nord is claiming, is not legal when only part of the assets of a company are being acquired.

The possibility that the government had committed a breach of the law of the land prompted a right-wing populist politician, Mrs Kirsten Jacobsen, of the Proess Party, to start a hue and cry against the tax minister, Mr Ole Stavad, a Social Democrat, who approved write-off.

Mr Stavad's political life is still in the balance; but the government was able to postpone a show-down with the opposition. It set up a commission of inquiry into who said and knew what during the weekend in August when Spar Nord extracted the write-off from a government desperate to avoid a bankruptcy and all the complications for local business which this would have caused.

Hilary Barnes

Profile: Danske Bank

Prudent lending policy pays off for shareholders

Both of Denmark's largest banks, Den Danske Bank and Unidanmark, are the result of the merger, in 1990, of the country's six largest banks into two domestic giants.

But there the similarity ends. Unidanmark (a merger of Privatbanken, the savings bank, SDS, and Andelsbanken) has been plagued by heavy losses. The bank is now recovering under the management of Mr Thorleif Krarup, brought in from outside in late 1992, and after a highly successful international equity issue this spring it has been well-placed to take advantage of the coming upswing.

Danske collapsed in 1920 and had to be rescued by the state

Danske (a merger of Danske Bank, Copenhagen Handelsbank and Provinsbanken), on the other hand, has emerged from the recession years as the biggest, strongest and most profitable of the larger banks. Danske's assets at the end of 1993 were DKr356bn compared with Unidanmark's DKr242bn. Danske made a net profit of DKr2.4bn in 1993 to Unidanmark's DKr885m.

Even more striking is a comparison of profits over the entire recession period, 1987-1993.

Danske made profits of DKr5.7bn, while Unidanmark made losses of DKr2.6bn. Danske's equity capital peaked at DKr22.5bn in 1989, slipping to DKr20bn in 1993. Unidanmark's peaked at DKr18.6bn in 1989 and was down to DKr11.5bn at the end of last year.

The difference lies in their respective lending policies. Danske (when it was known as Landsmandsbanken) collapsed in 1920 and had to be rescued by the state. It appears to have been permeated by a conservative ethos ever since.

This has shown up in the loss provisions as a percentage of loans and guarantees, which peaked at just over 2 per cent in 1990 and fell to 1.4 per cent in 1993. Unidanmark's peaked at 4.5 per cent in 1992 and were down to 2.7 per cent in 1993.

With a 35 per cent share of the domestic market (measured by assets), Danske does not wish to become larger – except by organic growth – according to its chief executive, Mr Knud Sorensen. But the bank is not, therefore, without ambitions. Mr Sorensen electrified listeners at a banking conference held in Copenhagen recently by business newspaper Borsen, when he declared:

"With regard to new business areas, insurance and mortgage credit, we see no reason why, over a period of years, we should not obtain a market share which is equivalent to our share of the banking market."

Mr Sorensen says that by this he also meant organic growth, and he was not intending to say that Danske plans to take over the Baltica insurance group, although he does not rule that out.

If other buyers for Baltica cannot be found, Baltica may land in Danske's unwilling lap.

Barring acquisitions, Danske has a long way to go to win a one-third market share of either insurance of mortgage credit. Its market shares in accident insurance, life and pension assurance and mortgage credit are still under 1 per cent.

Nevertheless, the bank's insurance and mortgage credit operations (it has two wholly-owned insurance companies, a life and accident company, as well as a general insurance company jointly owned with Codan) are a sign of the times. Danske – together with the other larger banks – is meeting competition for its customers' money by offering customers the opportunity to do insurance and mortgage financing with the bank.

(The insurance companies, of course, are doing the same, setting up banks in order to attract savings accounts from their insurance customers.)

Mr Sorensen's lecture was an interesting exposé of the bank's basic approach to business – a contribution to the growing literature which takes exception to the strategic planning approach to business management.

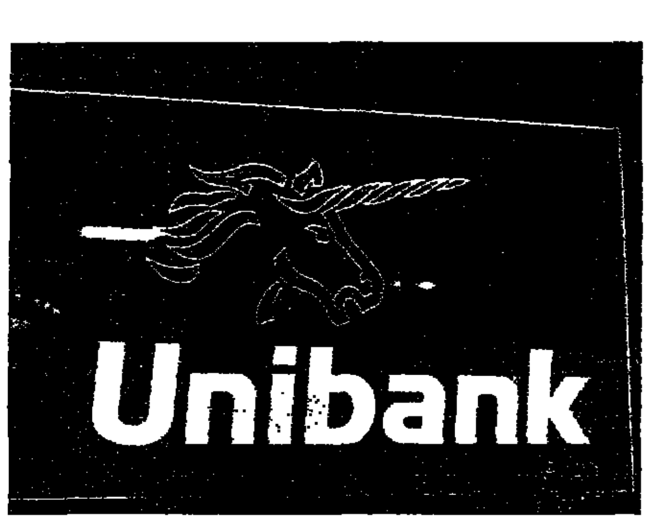
"The world is unpredictable, forecasts are usually wrong," said Mr Sorensen. "Instead of plans, which can never be kept, we try to maintain a permanent preparedness to meet change . . . to react constructively to unexpected developments, exploit opportunities which suddenly appear."

But, he went on, there is only one form of growth that interests the bank: growth in profitability, with net profits as a return on capital of about 10 per cent as a desirable level.

The bank achieved a return on equity last year of 13 per cent – "But I am afraid to say that in 1994 and the immediate years to come we cannot expect to obtain a return of anything like the same level," he said. "A given level of business, including the number of branches and staff, is in principle only desirable if it brings a satisfactory return on the capital which our shareholders have made available to us," he added.

It may sound routine to Anglo-Saxons, but it sounds notably hard-headed to Scandinavian ears, where the interests of shareholders are often balanced against those of the employees and the community at large.

Hilary Barnes



Unidanmark: plagued by heavy losses

Den Danske Bank: emerged from the recession years as the biggest, strongest and most profitable of the larger banks

Knud Sorensen: Baltica may land in Danske's unwilling lap

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Jyske Bank discloses more than expected

Points scored

Jyske Bank, the Jutland-based bank which ranks as the country's fourth largest with assets of about DKr56bn, has long enjoyed the role of provocateur, never losing an opportunity to score verbal points off the big Copenhagen-based banks.

It has done it again this year. It has defied the recommendations of the Bankers' Association and the Finance Supervisory Authority by disclosing much more information about the bank in its 1993 annual report than the supervisors recommend or other banks disclose.

Jyske's action has not met with universal acclaim, and some of the wind was taken out of its sails by Unidanmark, which when it launched its international equity issue in February had to disclose more information in the prospectus than would have been required by an issue directed at domestic investors).

There was just a touch of sour grapes in the comment from a senior manager at Den Danske Bank, who pointed out that much more extensive disclosure practices by the Swedish banks had not helped either them or their investors to foresee the difficulties which the Swedish banks met in 1991-92.

The problem is not so much a general desire to restrict disclosure, however, as the argument that the banks should first agree on what to disclose and to ensure that the criteria for the information disclosed means that like can be safely compared with like.

The problem is a long-standing one, and the Bankers'Association and the Supervisory Authority are still working towards acceptable definitions and standards.

Information which is not normally disclosed by Danish banks includes the size of non-performing loans, the size of the contingency reserve (the sum of past loss provisions after deduction of realised losses), lending by business sectors, and a detailed analysis of credit policy and market risks arising from changes in interest rates, foreign exchange gyrations, share price movements, and liquidity risks.

Kaj Steenkjaer: an accolade from the bank's biggest shareholder

Leon Rasmussen, Jyske's chairman: bottom line improved

"I'm blowed if I can see why we shouldn't tell our own shareholders and customers as much as Unibank has to tell foreign investors," said Jyske's chief executive, Mr Kaj Steenkjaer, when he presented his bank's 1993 annual report at the bank's headquarters in the mid-Jutland town of Silkeborg.

The report contains all the above information and more and he received an accolade on the same occasion from the bank's biggest shareholder, the representative of the ATP National Labour Market Pension Fund, for its efforts to improve the transparency and informative value of its own accounts.

Jyske demonstrated the courage of its convictions by increasing disclosure at a time when it is still carrying heavy loss provisions, rather than waiting for a year when everything looked wonderful.

Like all the banks, the bottom line improved last year. Jyske made a profit of DKr429m compared with a 1992 loss of DKr919m. Loss provisions were cut to DKr844m from DKr1.26bn in 1992, while realised and unrealised gains on securities added Dkr708m to 1993 profits against a loss of DKr7m in 1992.

The bank's capital adequacy ratio is strong, with tier one capital at 8.1 per cent of risk-weighted assets and its total capital adequacy ratio at 10.9 per cent.

But non-performing credits, which were under one per cent of loans and guarantees in 1989, climbed to 4.10 per cent from 3.4 per cent in 1992.

Loss provisions were still a relatively high 2.2 per cent of loans and guarantees, though down from a peak of 3.1 per cent in 1992. We also now know that Jyske Bank always has DKR2bn in liquid assets on hand to meet day-to-day needs, or about five per cent of deposits.

At the end of last year it had liquid assets on hand to cover a period of 12 weeks in a worst-case situation, when no deposits were renewed. The message seems to be clear: there's no need to rush.

Hilary Barnes

Profile: Laan & Spar

Technology helps build bridge to the future

For five years Mr Peter Schou has been preparing Laan & Spar, a medium-sized Danish retail bank, for a listing on the Copenhagen stock exchange.

The delay has been necessary first, to convert the bank to a limited company from a self-governing institution. This was done in 1990 through a closed issue of shares bought by 131 investors, including trade unions, pension funds and other institutional investors.

The share issue was followed by a far-reaching transformation of Laan & Spar into a direct bank. To increase productivity distribution channels have been changed. Three of nine branches have been closed and earlier investments in information technology fully utilised. As a direct bank, L&S' target customers – white collar workers and academics –. have been given access to the bank by telephone, telefax, mail and later via modem.

Because of the bank's high interest margins, the bank realised that the new distribution channel had to provide better prices than that of competitors to attract new customers, even though it would be impossible to offer the new discount pricing scheme to all existing customers.

The new distribution channel has made it possible for L&S to make its system more efficient. At the same time, the bank's line of products has been reduced to create greater simplicity and transparency. Corporate customers were excluded from the bank's targeted customer base.

Last year L&S introduced a new service channel through diskettes. These include application forms for loans, an interest rate survey of the top 37 banks, covering a period of four-years for all main products, information on the costs of changing banks, personal tax calculation programmes and a personal budget programme.

The diskette is run on a standalone personal computer and is distributed free to existing and potential customers. Later this year in August, L&S plans to introduce Denmark's first home banking system on diskette.

Before the bank's transformation, the bank's profitability and capital base were weak. Mr Schou has introduced a very tight risk management policy permitting only limited currency dealing – foreign exchange currency is limited to buying/selling of travel currency – and interest risks.

A structure was designed around the corporate leadership which would implement the bank's changes. "The cornerstone should be participative management. The organisation itself should develop the process and changes on a continuing basis," Mr Schou explains.

This strategy was very successful and the profitability of L&S allowed the bank to facilitate the change in its ownership structure the following year. "The average interest margin has been lowered to three per cent from 10 per cent and, at the same time, distribution, production, credit and sales costs have been reduced. This has led to bigger volumes and increased profitability." Mr Schou explains.

L&S' capital base grew by more than 100 per cent through the closed share issue, the company's name was changed and the direct bank concept was launched publicly. The bank's new owners have indicated two main intentions: to achieve as big a return as possible on the capital which they invested and to maintain a decisive influence over the bank after it became listed on the stock exchange.

Last year the bank's old programme and the new direct programme were merged into a slimmed direct programme. At the same time the reduced number of branches transformed into local direct banks which could attack their regional markets while offering the same prices as the regional branches.

In 1873 Discount and Advance Payments Bank, as L&S was earlier known, failed in its first attempted launch on the stock exchange. According to Mr Schou, a small circle of civil servants sought to benefit from attractive market conditions to raise capital for lending activities directed towards their peers.

The result was dismal. The bank attracted just DKr40,000. Seven years later it merged with a thrift society. This month, L&S expects to raise an estimated DKr130m to add to the bank's reserves and to see its first trading day on May 6 on the Copenhagen stock exchange.

Until 1960, the level of the bank's activity was relatively modest and it did not experience any real growth until during the period 1960-88 when it achieved assets of DKr1.4bn and was ranked number 42. Following the management change and restructuring of the bank, L&S has improved its ranking to number 14 and its assets have grown to DKr4bn.

The first move by the new management team which took over following the retirement of Mr Schou's predecessor as chief executive in 1988 was to attempt to turn L&S around. But this coincided with the start of a recession. "The missing profitability and capital base clearly showed that everything had to be changed," according to Mr Schou.

But the turnaround had to be undertaken in steps for it would have been impossible for L&S to attract fresh capital until profitability and productivity could be documented over a period of a number of years.

Although a few of the bank's competitors have sought to imitate L&S none have managed to offer the same mix of distribution entities. The imitations are purely telephone banks, he maintains.

"Laan & Spar sees the mix of branches and the centrally-placed direct branch as a bridge to the future. We believe that customers below 50 years of age will get used to the direct bank [concept], while customers beyond 50 years of age will be reluctant to become direct customers," he said. The most profitable private customers remain however, those older than 50.

This year L&S' distribution and production systems are being trimmed further and efforts have been directed towards quality improvements while maintaining price competitiveness.

Earlier this year the bank's competitors introduced new fees, but L&S was able to maintain its four year-old fee level due to the success of its streamlining concept.

The bank has budgeted for a 1994 pre-tax profit of DKr52.7m against DKr62.5 in 1993. The decline is mainly attributed to an increase in costs due to expansion of production capacity and a fall in net interest income due to a drop in interest levels from 1993 to 1994.

L&S future strategy is to maintain its ability to convert large investments in information technology into cost reductions, to continue to attract, maintain and develop motivated and committed employees, to maintain its ability to listen to its customers and the capability and quality of the management in managing a company undergoing changes.

Karen Fossli

Venture Capital

Funds for starters

The speciality of Mr Michael Mathiesen, a young Danish venture capitalist, is making young companies grow, and despite his youth – he is only 34 – he already has several successes to his name, writes Hilary Barnes.

In terms of the capital available, Mr Mathiesen's operation is minute, but he thinks that the size of the capital available is less important than the concept of venture capital which he is introducing to Denmark, arguing that many venture capital companies have not been a success because their starting point has been wrong.

Mr Mathiesen began his career when, not yet out of business school (which he never completed), he founded a company, Dataco, in 1985 to produce a local area network gadget, which enabled firms to network computers made by different manufacture. In 1990 Dataco was sold for DKr400m, with a sizeable proportion of the proceeds going to Mr Mathiesen.

He subsequently set up a venture capital company 2M Invest. Among 2M Invest's other owners are the large, trade-union controlled pension fund, the LD Fund, and the Association of Danish Engineers' Pension Fund.

The object of 2M Invest is to provide seed-funding to new companies, but before he set the company up Mr Mathiesen first took a close look at how venture funding works in the US and why it does not work well in much of Europe.

The problem with European venture capital companies is very often that they do not know enough about the industries in which they are investing, he says.

Second, the venture capital companies often have large sums of money available, but limited management resources. A gap develops between the venture capitalists and the companies they are supposed to be nurturing, with the venture capital managements trying to keep an eye on far too many companies.

The fact that the venture capital companies – and it applies with even greater emphasis to pension funds – often have very large sums of money available also means that they do not have time or resources to invest in small companies, so seed-funding of promising new companies becomes a neglected area.

With 2M Invest, Mr Mathiesen aims to overcome these problems.

The company only invests in companies in the information technology industry "because that is what we know about."

The object of 2M Invest is to provide seed-funding to new companies

Moreover, its managers "all bear the scars of industrial experience, otherwise the companies do not respect us".

The portfolio, currently four companies, will be limited to 10 or 12 companies, so that each manager is supervising the progress of only three or four companies and there is time to do more than just look at the financial data.

"We blame other venture capital companies for not being close enough to the companies, so we must be," he said.

Other criteria for 2M Invest's investment are that the target company must own or partly own its technology; the technology must have a global appeal; and must be on the brink of a rapid growth in sales.

2M Invest expects to take companies from the start-up phase to a turnover of \$30m-40m, at which point they would become the target for acquisitions or go public.

The companies in its portfolio now include three Danish and one American. The Danish companies are:

■ Scanview, which manufactures image setters and scanners for the graphics industry. It was founded in 1990. Turnover last year was about DKr100, and budgeted turnover for 1994 is DKr175m. Mr Mathiesen sees Scanview as a candidate for a Nasdaq listing in a year or two.

■ Hypercom is a Danish-British company set up in 1992 to produce and develop software and hardware for multimedia broadcasting, a company which, Mr Mathiesen believes has "gigantic potential".

Hypercom is providing the software for a new service by which CNN will distribute Reuter financial news, using a teletext application enabling the news to be received on a personal computer.

■ Exatec was founded in 1987 and has a turnover of DKr280m.

The company is part trading company in electronic components, part development company with a team of design engineers who develop special components for applications by electronics companies. A turnover of around DKr600m within three years is predicted by Mr Mathiesen.

The American company, RadioMail, is a joint venture between its American founder, Mr Geoffrey Goodfellow, Motorola and 2M Invest.

RadioMail provides the software for a wireless-based electronic mail system. Using a pocket computer and a two-way wireless device, which come in a zip-up case about the size of an airport paperback, users in America can send and receive messages and documents from anywhere to anywhere at any time.

The first RadioMail service base in Europe will be opened soon in the Netherlands. RadioMail won the Mobile Advance of the Year prize at the San Jose, California, Mobile '94 exhibition in March. With only 35 employees to date, RadioMail, says Mr Mathiesen, has an exciting future.

Finally, through a second investment company, Eastern Business Investments, Mr Mathiesen last year set up a company in St Petersburg, Russia. It manufactures metal components for export to western Europe, with the sales and marketing function taking place from Copenhagen.

The Russian company was opened just a year ago, and the Russian production and Danish marketing concept is working, said Mr Mathiesen.

"The company is beginning to fly," he says.

The country's distinctive mortgage credit system has survived a turbulent economic period, says **Hilary Barnes**

Three biggest groups back in the black

Securitised mortgages have been a feature of Denmark for two centuries and, "no mortgage bondholder has ever lost his money in the 200 years the system has existed".

So says Mr Lars Rohde, a member of the management board of Realkredit Danmark (it changed its name from Kreditforening Danmark in 1993), one of the two largest mortgage credit finance groups.

The Danish mortgage system is unusual. Virtually all mortgage financing is done through the bond-issuing institutions. These were until recently self-owning associations of borrowers, but they have now been converted into limited companies.

The holding companies in the mortgage groups, however, continue to be owned by the borrowers. The companies are not listed on the Stock Exchange but the bonds they issue are.

Mortgage bonds account for around half of the turnover in bonds on the Copenhagen Stock Exchange. The system functions efficiently because it is supported by an infrastructure of a kind which does not exist in many other countries. There is an official property registration and mortgage debt registration system (covering not only loans issued by the mortgage institutions but also private mortgage notes, known as "pantebreve").

Nearly all financing is done through the bond-issuing institutions

This infrastructure means that there is a quick and legally simple means of reclaiming property if the owner defaults on mortgage payments.

Ownership is always known, and there are no privileged liabilities which are unregistered and therefore unknown to the lending institutions, as Mr Rohde explained.

Funding and loans by the mortgage credit groups are matched: 30-year loans are matched by 30-year bonds. There is no mismatch, "which gives the system stability", says Mr Rohde.

Nevertheless, the mortgage finance institutions are just emerging from a turbulent period, on which Mr Rohde's judgment is: "We survived." The combination of moving from high to low inflation in the late-1980s and the recession which began in 1987 had as dramatic an impact on the mortgage credit institutions as it did on the banks. As commercial and residential property prices collapsed, the level of defaults and executive auctions assumed a scale which was as bad as anything experienced in the 1930s.

There is a quick method of reclaiming property if the owner defaults

There was no question of the mortgage institutions going bust, but at the peak of the crisis a situation was reached when it appeared that the institutions would no longer have the capacity to make new loans. Drastic action was called for to put the institutions back into shape.

Realkredit Danmark has cut its staff by 35 per cent since 1989, tightened up its credit policy to avoid new losses, and increased the margin (between what it actually raised and what it lends to the householder) on its loans. The other institutions have carried out similar programmes.

Last year brought relief. The three largest groups were back into the black. Realkredit Danmark turned a 1992 loss of DKr1.28bn into a profit of DKr1.47bn. Nykredit moved from a very small profit of DKr46m to a profit DKr1.32bn.

They continue to carry very high – by the standards of mortgage credit – loss provisions of around 0.7 per cent of lending, but property prices have begun to recover and the economy is turning up, so the groups expect the level of bad loss provisions will at last begin to fall.

Falling interest rates in 1993 opened the way for mortgage-holders to convert loans carrying coupons of nine to 11 per cent to loans with coupons of six and seven per cent, which brought on the mortgage companies enormous pressure of business.

The launch of a new series of 30-year bonds with a six per cent coupon was also popular with the markets and created a series of highly liquid securities in which there was a substantial foreign interest. From the point of view of foreign investors, however, mortgage bonds carry a number of disadvantages, compared with treasury bonds.

The mortgage bonds are not bullets, which is the kind with which foreign investors are familiar, and they are callable. On the other hand they carry a spread of up to 100 basis points (it varies considerably according to conditions in the markets) over treasury bonds.

A further problem is that mortgage credit groups have not yet been rated by the international rating agencies, which is often a requirement before the big institutional investors will consider buying an institution's securities. In the meantime, the mortgage institutions are becoming interested in international funding, which reflects the general globalisation of the Danish financial sector.

The Danish institutions used to be subject to a rule that krone assets had to be matched by krone liabilities, but this straitjacket has been removed. The Danish institutional investors, who take up the bulk of the mortgage bond issues, are diversifying into foreign securities, says Mr Rohde, "so we have a natural desire to broaden our funding base by selling internationally."

At home, the mortgage credit institutions are meeting competition from the banks. Den Danske Bank and Unidanmark both set up mortgage credit subsidiaries last year, which enables them to keep funds within the group which would otherwise have moved to the old-established mortgage credit groups, or, as Mr Rohde less kindly puts it: "They have cannibalised their own lending."

Current legislation does not allow the mortgage credit institutions to reply in kind by setting up banks themselves, although the insurance companies, for example, are allowed to operate banks as subsidiaries, and do.

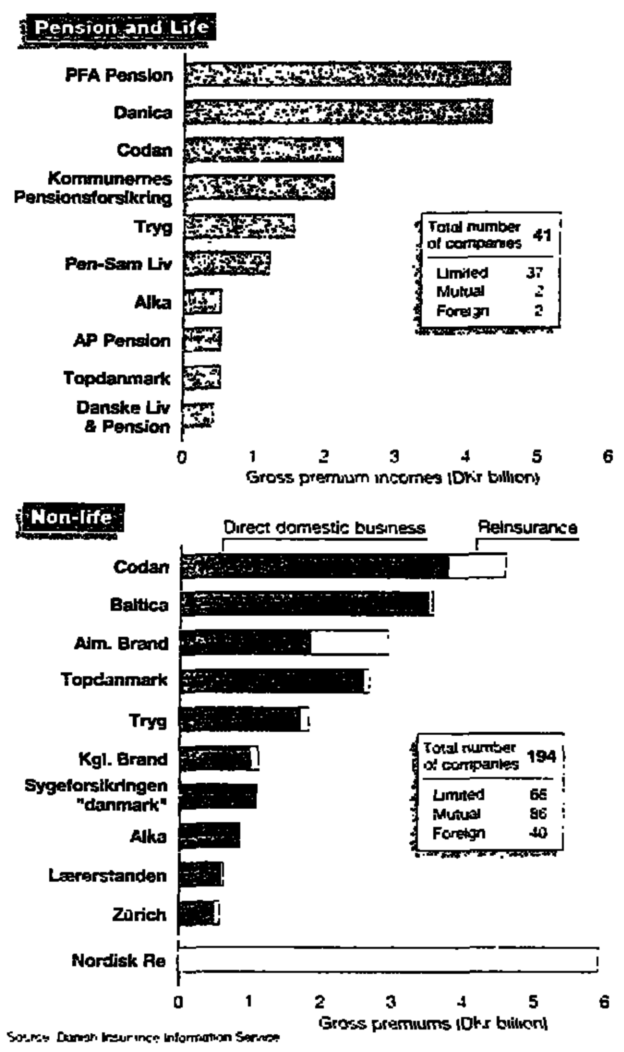
The mortgage credit institutions are now pressing for a change which will put them on a competitive footing with the banks and insurance companies.

The three largest mortgage finance groups by lending (1993)

Nykredit	DKR336bn
Realkredit Danmark	DKr295bn
Byggeriets Realkredit Fond	DKR125bn

(Source: Financial Times)

The largest insurance companies 1992



Ownership of Baltica remains to be decided, writes **Karen Fossli**

Rescuer holds key to future

For more than a year the ownership structure of Baltica Forsikring, Denmark's biggest insurance group, has been shrouded in uncertainty. Because of this, Mr Hans Ejvind Hansen, chief executive, has been constrained forced to designshort to medium-term strategies for the company and to restrict his focus to basic insurance operations so as to sharpen Baltica's domestic competitive edge.

The insurer was saved from collapse last year by a complex rescue package in which Den Danske Bank, Denmark's largest bank, emerged as Baltica's biggest shareholder with a stake of 32 per cent. However, DDB's stake in the company is more than 50 per cent when taking into account a 24 per cent shareholding held by Gefion, Baltica's former holding company, whose main creditor is DDB.

The insurer was saved from collapse last year by a complex rescue package

"We all know that Den Danske Bank holds the key to our future but we have to try to maximise our attractiveness to potential investors so that all possible solutions to our ownership can be kept open," Mr Hansen said recently.

Baltica owns 27 per cent of its own shares, having been given limited dispensation from Danish rules which do not allow insurance companies to own more than 10 per cent of their own shares.

Both of these shareholdings will have to be sold within the next two years because of the Danish rules, but it would be hardly surprising if DDB was given a political green light to take over Baltica, although concern over DDB's dominance of the domestic financial market makes this solution problematic.

The bank has said that it intends to clarify its intentions for Baltica during the first half of this year, but Mr Hansen, who is also a former DDB deputy chief executive, is less than optimistic that the company's ownership structure will be decided within this time frame.

"Given the recent turmoil within the company and, within the Scandinavian insurance industry, Baltica's employees have learned to shrug off rumours about their future. "Their morale has been surprisingly high, considering they have been through so much. I tell them it is business as usual and not to stop making decisions," Mr Hansen said.

Possible future ownership plans have ranged from the company becoming independent, to DDB acquiring Baltica, to Codan – the Danish subsidiary of the UK's Sun Alliance – acquiring part of the business, to Skandia, Sweden's biggest insurer, becoming the new owner.

The Scandinavian insurance industry is still recovering from a series of dramas which took place nearly two years ago and which saw several big participants in Storebrand and Denmark's Baltica and Hafnia driven to near collapse.

The Scandinavian insurance industry is still recovering from a series of dramas two years ago

Acquisition by Codan seems rather ambitious given that the former is in the throes of absorbing Hafnia, which it took over last year. A move by Skandia to acquire a big Baltica stake appears less far-fetched but the company has indicated its intention to retrench back to domestic business and expressed some reservations over expansion. Danish politicians have also indicated a preference for a domestic company to own the country's biggest insurer.

A senior DDB executive said recently that given the bank's ambitions within the insurance industry, it would not be unnatural for DDB to acquire Baltica. Mr Hansen says: "We could see a solution whereby Baltica's shares were redistributed among a number of institutional investors, domestic and foreign, or one in which Den Danske Bank took us over. Because there are so many possibilities it makes it difficult to establish a strategy for the company which could cope with them all."

His patience over Baltica's future ownership structure is wearing thin. "I have told DDB that it would be beneficial if a rapid solution was found, and I will not repeat it," he said.

Baltica's chief executive hopes also to benefit from the merger between Codan and Hafnia, its biggest competitors. "The results of Hafnia's primary business have not been among the most flourishing in the country. Now that it has taken the company over, Codan has to find a common policy and premium strategy for the old Hafnia and Codan and to increase premiums by as much as we have.

"Codan is an important competitor – though Baltica is bigger – and we hope to be able to profit from the difficulties that relate to all mergers. Our problem is that we do not earn enough from our direct insurance, but compared with our competitors we are the best in the country."

Meanwhile, Mr Hansen, who earlier took charge of reducing DDB's employees by 15 per cent before coming to Baltica last April continues to forge ahead with tightening the operations.

Baltica's 1993 results are due to be published on April 7, but may be delayed until later in the month, according to Mr Hansen, owing to a couple of issues which have yet to be resolved. However, he said the company's performance in direct insurance was weaker last year than in 1992 when the group suffered a net loss of DKr445m, primarily due to an extraordinary charge of NKr655m against accounts.

Baltica, nevertheless, has reduced costs by 10 per cent in the past year partly through staff reductions of the same magnitude, and steps are being taken to achieve a further 10 per cent cost reduction by 1995.

"We hope to present significantly improved results for the first half of 1994 and I am confident that the results for the whole year will be a substantial improvement over 1993. We should also be able to achieve a reasonble profit in 1995 barring unforeseen circumstances," he said.

Last year Baltica increased its premiums by 10 per cent from 1994 – it was the first such increase in more than eight years. "We are trying to define a new business idea which means concentrating on direct Danish insurance, cutting out associated business, and forming strategic alliances. The three main pillars of our strategy include premium increases, cost reductions and retrenchment of our business scope.

"We have retrenched our activities – both geographically and professionally but we will maintain operations in New York and London while winding down the business in Australia. Balta, our business in Lithuania, has been sold."

Mr Hansen said that if Baltica had had a huge portfolio of securities and bonds it would have been somewhat cushioned from its earlier financial troubles. "As part of our restructuring we took more than 27 per cent of our own shares in the form of treasury stocks as payment for taking over a corresponding level of debt from our holding company which was DKr2.2bn. When we had to pay back this debt we were forced to dispose of our securities and bonds and we have not rebuilt the portfolio," Mr Hansen explained.

"Although we have the handicap of not having a big securities and bond portfolio...we have a reasonably sound insurance business – whereas Codan has a big bond portfolio and the challenge of building a reasonable non-life insurance business from the ruins of Hafnia," Mr Hansen said.

Baltica has to live from its basic insurance business which is not easy in the very competitive Danish insurance market, according to Mr. Hansen. The company has a surplus policy, according to which it takes out as reserves allocations a surplus every year which is based on a percentage equivalent to what the policyholders are paid, plus a margin of 2.2 per cent. This means when shares and bonds increase Baltica under-performs, but when they decline in value the company over performs.

"This provides a stable and important income from our 1991 investment in Statsanstalten [the state's pensions and life insurance group], which is of great importance for our position in the market," Mr Hansen said.

Nevertheless, Mr Hansen admits he has to operate within a very constrained environment, given the outstanding questions over Baltica's ownership structure. "We have no choice but to sharpen the edge of our basic business."

DANISH BANKING AND FINANCE V

An official commission, scheduled to report this summer, is considering reforms of the stock exchange in line with the EU financial services directive, writes **Hilary Barnes**

Drift of trade to London causes concern

There is increasing international interest in Danish securities, both bonds and equities, but there is a catch viewed from the Danish perspective.

More and more of the trade in Danish securities is taking place in London. Accurate statistics are hard to come by, but in some periods about half the turnover in Danish bonds appears to have taken place outside Denmark, as well as a considerable share of the trade in the most liquid equities.

The Nationalbank (Central Bank) is clearly concerned at the trend, asserting in its 1993 annual report, published in March, that without reform of the market, "there is a risk that the Danish securities market will become of declining significance in the [face of] strengthening international competition..."

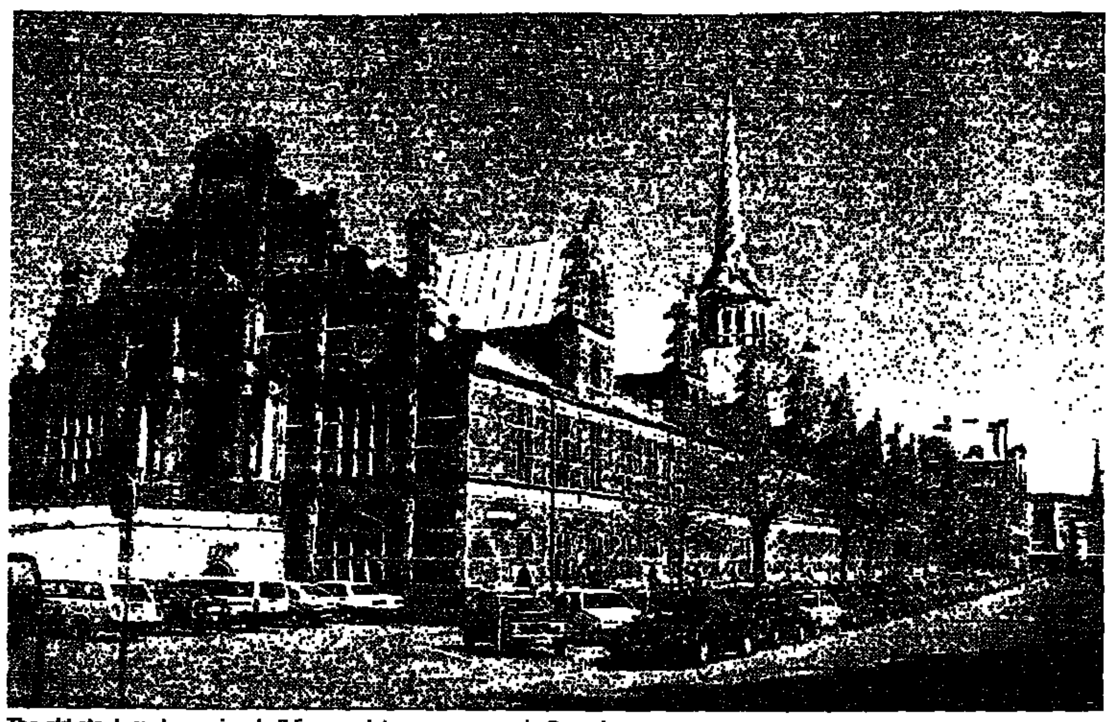
One of the reasons why trade is taking place in London, in the bank's view, is that non-residents cannot trade over the Copenhagen Stock Exchange unless they are physically present in Denmark.

The bank recommends a general liberalisation of legislation covering this aspect of the financial markets, to include the right for non-residents to trade on the Copenhagen Stock Exchange.

Reforms of the Stock Exchange are currently being considered by an official commission, due to report this summer, with a view to the implementation of the EU's investment services directive in 1996.

There is a lively debate taking place between the various interested parties – the big banks, the independent brokerage houses, the big bond-issuing institutions, and the institutional investors – on what changes are needed.

One of the problems, said Mr Eigil Pedersen, partner in investment bank Gudme Raaschou, and a former chairman of the Association of Danish Stock Brokers, is that the set-up in Copenhagen currently favours the two big banks.


The old stock exchange is a building as picturesque as any in Copenhagen

They account for about 60 per cent of the transactions, and for trade in the very liquid securities, but there are a lot of illiquid securities, both bonds and shares. "We want to keep this market alive," he says.

He has been looking at reforms of the Amsterdam Stock Exchange, which faced a similar problem of trade going to London, but has managed to reverse the trend by changing the structure of its own market, allowing non-resident brokers to trade over the Amsterdam Stock Exchange and by establishing separate wholesale and retail markets.

Making changes is a difficult process in Copenhagen, where the Stock Exchange and its related institutions, the Securities Registration Centre and the Guarantee Fund for Options and Futures, operate under legislation which gives the Stock Exchange a monopoly. The supervisory boards of the institutions, in principle self-owning, are appointed by the Ministry for Industry.

The present set-up means that the Stock Exchange mixes commercial with administrative and regulatory tasks. "We think it is a necessary condition for a stock exchange to function as a market place that it must be run on a commercial basis," said Mr Kai Struwe, secretary-general of the Association of Danish Stockbrokers. But he agrees that, as Denmark does not have the London market's tradition of self-regulation, the debate on freeing the Stock Exchange to function on a strictly commercial basis will be a difficult one.

Copenhagen now offers trade in a full range of derivatives, as well as in bonds and shares. A future on the 3-month Cibor, introduced last autumn, added a money market derivative to a selection of stock options and futures based on benchmark bonds and the KFX index of the 10-most traded shares. A feature of Copenhagen is that all these instruments are traded on a single exchange.

The Danish market was the first in the world to abolish paper securities and introduce a fully electronic book entry and settlements system, starting with bonds in 1983 and shares in 1988. Electronic registration of foreign securities has been possible since 1989. Automatic trading systems were introduced in 1987. Decentralised trade – from broker's offices – became possible in 1988 and the floor of the Copenhagen Stock Exchange was closed in 1989.

Stock exchange turnover (DKrbn)

Market profile	1993 4th quarter
Bond turnover (nominal value)	3,743,417
Volume in circulation	1,919,675
No of bonds	2,359
Share turnover (market value)	35,864
Volume in circulation	318,435
No of equities	595
Futop, bond-related	351,810
share-related	12,358

Source: Copenhagen Stock Exchange

Technically-speaking, the system has worked extremely well, but not every one is satisfied with the rules of the system. It embodies an extreme degree of transparency, with a 90-second requirement between making a deal and reporting to the Securities Centre. This, said Mr Struwe, exposes a dealer who has a big position as he or she has no way of getting out of the position without the entire market knowing that he must. Some trade may have gone to London simply because there is greater degree of anonymity.

The Copenhagen market is dominated by bonds. "We are one of the most exciting markets in Europe," said Mr Struwe. A substantial share of the benchmark treasury bonds are traded internationally. Last year the introduction of 30-year mortgages attracted international investors and on April 6 a 30-year treasury bond was launched.

The Copenhagen equities market is relatively small, and only around five per cent of the shares listed in Copenhagen are held by non-residents. In the other Nordic countries somewhere between 20 and 30 per cent of the shares are foreign-owned.

Interest in Danish equities may be picking up, however. The $3bn Tele Danmark privatisation issue taking place in April, 85 per cent of which is expected to be sold internationally, will introduce a new and liquid share.

The DKr1.7bn international issue by Unidanmark in February was a further sign of the times. It was the first time that a Danish bank has launched an international issue, Mr Thorleif Krarup, Unidanmark's chief executive pointed out, and the issue, at market price, was oversubscribed four times. Mr Krarup was particularly encouraged by the considerable interest in the issue in France and Germany in addition to the UK and the US.

"If Danish companies make a systematic effort, they can make Danish shares more interesting and more liquid," is Mr Krarup's conclusion.

Profile: Gudme Raaschou

New ways to earn money

The name of Gudme Raaschou has been appearing increasingly often, as co-manager or adviser on prestige Danish equity funding issues such as last autumn's privatisation issue by Giro Bank and last month's Copenhagen Airport privatisation issue.

The emergence of the Raaschou- name (pronounced – approximately – "Ross-coo")is the story of a traditional brokerage business which saw the writing on the wall when the comfortable monopoly enjoyed by brokerage businesses in Denmark was shoved aside in 1985 and banks were allowed to set up their own brokerage subsidiaries.

The competition became even rougher when the country was plunged into a long recession after 1986 and the markets collapsed. When the Danish Stock Exchange went electronic in 1985 there were 54 registered broking companies. Now there are only 26. The market is dominated by Danske Bank's and Unidanmark's broking operations (since January 1 this year the banks no longer have to operate brokerage in a subsidiary company), and only a handful of independent brokers have survived.

'We had to have new business to ride out the storm. Brokerage alone would not keep it going'

"When the market collapses, either you need a rich uncle or you find new ways of earning money," says Mr Kaare B. Dullum, managing director of Raaschou. "We did the latter. We had to have new business in order to ride out the storm. Brokerage alone would not keep it going."

Mr Dullum and his partners at Raashou, Mr Eigil Pedersen and Mr Knud J. Strange, mapped out a strategy to turn the traditional broking business, founded in 1925, into a combined investment bank and broking group.

Mr Dullum played a key role in the transformation process. He arrived at Raaschou in 1985 from Novo (now Novo Nordisk), the pharmaceuticals group where, as finance manager, he pioneered the first international equity issue in modern times by a Scandinavian company.

The position which Raaschou has tried to exploit is its independence, by virtue of its ownership, of other market participants. It is not committed to any particular source of funding and its own financial involvement is typically limited.

As organised today, Raaschou operates on the brokerage side in Danish shares and bonds and foreign securities. Its investment bank operations include portfolio management, corporate equity finance and international capital markets (non-equity borrowing), and advice and consultancy in all these fields.

The two sides of the business complement each other. "We are always in the markets, so we know what is going on," says Mr Dullum. Raaschou has raised about DKr10bn over the past two years – "which is quite a lot for a little company."

Typical amounts raised are in the DKr300m-600m range. A considerable proportion of the money raised by the company has been for non-Danish Scandinavian companies. This side of the business is expected to become increasingly important.

Raaschou has just recruited Sweden's Mr Hans Cavalli-Bjorkman to the supervisory board. Mr Cavalli-Bjorkman is a former chief general manager of Skandinaviska Enskilda Bank; his base is in Malmo, just across the straits from Copenhagen. He is a strong advocate of closer business and economic relations between the southern Swedish and Copenhagen regions. A board member of many of the big local Swedish companies, Mr Cavalli-Bjorkman is sometimes referred to in the Swedish media as the king of Malmo. Raaschou has made something of a coup.

Raaschou earns about half its income from investment banking, and the change was not smooth

Raaschou is now earning about half its income from investment banking, and the change from brokerage to investment banking was not always smooth. "It was not always easy to balance out the dips in brokerage earnings with earnings from investment banks. We had a few sleepless nights along the way," says Mr Dullum.

In the process, the company has undergone a complete change. Almost all the staff have changed since 1985. The education level is much higher, Mr Dullum says – a necessary requirement for a company which has made its mark in several complex mergers and acquisitions and corporate restructuring operations as well as capital market issues.

Hilary Barnes

Hilary Barnes looks at an institution specialising in shipping finance

'The kind of financing which is of little interest to banks'

There is more to the Danmarks Skibskreditfond (DSK) than has yet met the foreign investor's eye, according to Mr Bo Jagd, the fund's managing director. Or – as he says while trying not to sound too boastful – "We can't find a bank in Europe which has a bigger shipping finance portfolio than we have."

"We are a household name here at home, but we are hardly known anywhere else," Mr Jagd says, but he predicts that this will soon change. So far the fund, a specialist bond-issuing mortgage institution providing long-term finance for ships, has been funded entirely in the domestic market, but he expects that within the foreseeable future it will go into direct dollar financing.

The DSK is a substantial institution by Danish standards. Its DKr47bn balance sheet and DKr39bn loan portfolio ranks it alongside Giro Bank, which is the country's fifth largest bank. But the DSK is in the business of long-term finance. Typically, it provides 14-year loans matched by funding with a 14-year maturity – a kind of financing which is of little interest to banks.

Loans are provided for new building of ships and conversions of ships at Danish shipyards for Danish and foreign owners, and to Danish owners for the acquisition of new ships and second-hand tonnage, as well as for the sale, to foreign owners, of Danish ships.

The substantial loan portfolio reflects the fact that Denmark boasts a large commercial fleet and a substantial shipbuilding industry. There are two big shipping companies: A P Moller Maersk, which is one of the world's biggest, probably best-known for the Maersk Line (one of the world's two biggest companies in container-carrying liner shipping); and the Lauritzen group, which is especially prominent in refrigerated cargo transport.

Moller owns the Odense Steel Shipyard, the only yard in Europe which has built and delivered double-hulled super-tankers. Lauritzen owns the Danyard, in Jutland, which recently won a big order to build a series of gas carriers for the American group Stolt Nielsen (the finance was arranged by the DSK). The third important shipyard is the Burmeister & Wain Shipyard in Copenhagen.

The fund has a conservative lending policy and keeps tight control over exposures

The DSK loans are secured by first priority mortgages up to 60 per cent of the fund's evaluation of the vessel. Over this level additional security is required. The fund has a conservative lending policy and keeps tight control over exposures.

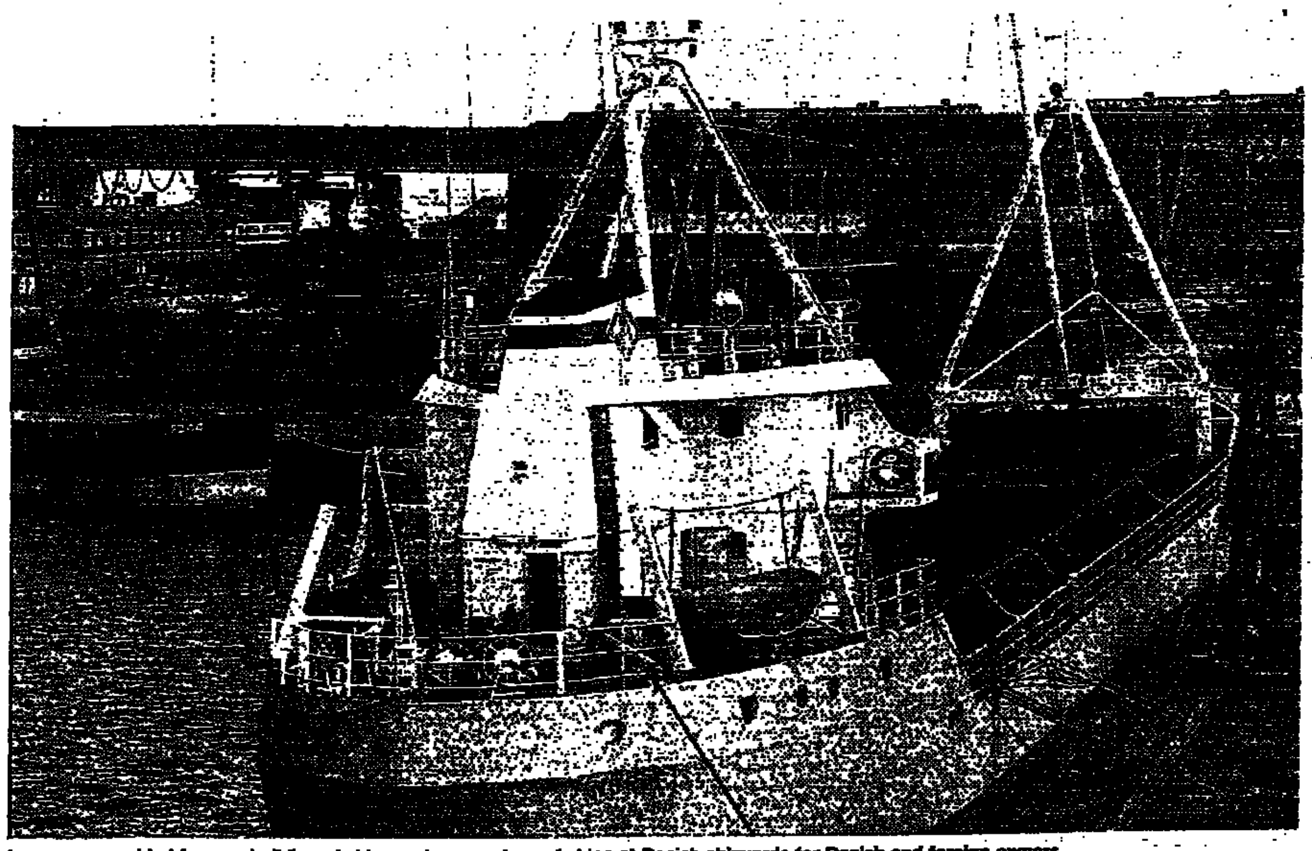
This shows up in the accounts. Bad loss provisions in 1993 were DKr62m, or about 0.6 per cent of lending. The DSK made a net profit of DKr221m in 1993; up from DKr202m in 1992. Its equity to assets ratio at the end of last year was 11.1 per cent – although this key figure does not have the same significance for the fund as it does for a bank, Mr Jagd says, because the DSK is not subject to the BIS capital adequacy rules.

The conditions under which the fund operates are changing rapidly. Not only have shipbuilding subsidies been reduced by the European Union, but also there is a strong push by the OECD's member states to abolish subsidies altogether.

This, and the fact that interest rates have fallen, means that an increasing proportion of ship financing is being carried out on market terms. In the case of Denmark, much of the fund's borrowing since the 1970s has taken the form of index-linked bonds. There was a strong domestic demand for these, which obviated the need to market DSK bonds abroad.

Funding by index-linked bonds is being phased out, however, and Mr Jagd says that the fund is increasingly interested in marketing its normal mortgage bonds abroad – as well as planning to introduce dollar funding instruments.

The DSK bonds, in contrast to many of the Danish mortgage bonds, are non-callable bullet bonds. This gives them a structure with which foreign investors are familiar. They resemble treasury bonds, but, typically, carry a spread over treasury bonds of about 40 basis points.



Loans are provided for new building of ships and conversions of ships at Danish shipyards for Danish and foreign owners

"If a foreign investor wants a Danish element in his porfolio, he can obtain a better yield from us than from treasury bonds," Mr Jagd says, but he concedes that the fund's bonds are not as liquid as treasury bonds.

In the past, the fund has done considerable business in swapping loans into floating rate dollars – which is a logical step, as ships are dollar assets. The next step, Mr Jagd adds, is to go into direct dollar financing, motivated partly by the fact that there is a limit to how many investors are prepared to do dollar swaps on loans of such long maturities.

In fact the fund has already made its first venture into dollar financing, a six-year loan on a bilateral basis. The time for more ambitious dollar financing is approaching, probably as a private placement, he says. "But there is no hurry. Institutions which change too fast have too often ended up in trouble, so we are changing cautiously."

Profile: Topdanmark

Trying to come out on top

Denmark has experienced two disasters in which insurance groups Hafnia and Baltica, have collapsed as a result of injudicious investments by their holding companies. There remains a question mark against the future of a third group, Topdanmark (Top), which has landed itself with a similar problem.

Mr Henning Birch, Top's chief executive since 1985, resigned on March 26, joining Hafnia's and Baltica's former managing directors, Per Villum Hansen and Peter Christoffersen. He was succeeded by Mr Kaj G. Schou, formerly head of Top's accident insurance business.

Top's future is of interest outside Denmark. It is a participant in Eureko, the European insurance partnership which includes the UK's Friends Provident, AVCB of the Netherlands, Wasa from Sweden, and Occidental of Portugal. Top has a 12 per cent stake in Eureko, which in turn has owns 30 per cent of Topdanmark.

Top's other big shareholder is the Danish mutual group, Tryg Insurance, with about 19.5 per cent. Last autumn Tryg announced that its stake in Topdanmark was for sale, but there were indications last week that Tryg may change its mind following Mr Birch's resignation.

Topdanmark's serious error was the acquisition, in 1989, of the Jutland regional bank, Aktivbanken, for DKr1.4bn. It turned out to house a cupboard full of skeletons; since 1989 the bank has cost Top another DKr1bn in losses.

The chairman of the supervisory board, Mr Oluf von Lowzow (whose titles include Lord-in-Waiting and Master of the Royal Hunt) has blamed the extra provisions on "misunderstandings" on the part of the supervisors – an allegation promptly and emphatically rejected by Mr Eigil Molgaard, the chief supervisor himself.

Tryg's managing director, Mr Alf Duch-Pedersen, has also publicly questioned the value of the Eureko investment, which cost Top about DKr500m. But in 1993, according to Topdanmark's accounts, the group made a profit of DKr46m from Eureko.

The costs of the investment in Aktivbanken pose a serious problem for Topdanmark: it has to refund about DKr1.5bn of long-term debt in 1995 and 1996.

At the annual meeting of shareholders in May, Mr Lowzow is expected to spell out the group's plan for getting itself off a potentially dangerous hook.

Hilary Barnes

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Eastern Europe is struggling to keep up with demand: Page IV

FINANCIAL TIMES SURVEY

INTERNATIONAL HOTELS

Thursday April 7 1994

While recovery in the hotel market has been patchy, the message of the past few years is clear: hotel guests are demanding better service for less money. Even when the world economy has fully recovered, this trend is likely to survive. Michael Skapinker reports

Service now worth having

During the 1980s, hotels around the world treated their guests so lavishly that people joked that the next treat would be a BMW on your pillow.

By the early 1990s, hotel executives had stopped smiling and so had their guests. The Gulf War was followed by recession in the US and Europe. Hotel room rates fell, managers in many businesses lost their jobs, other feared they would do so, and everyone started cutting their travel expenses.

Hotel business has now picked up in North America, London, and in much of Asia, where the downturn had not been so severe. The question hotel executives are asking is whether their guests will return to the free-spending habits of the 1980s, or whether their behaviour has changed for good.

Mr Peter George, chief executive, of the Ladbroke Group of the UK, which owns the Hilton International chain, believes that hoteliers should not lose sight of the principles of supply and demand. Hotel rates have been depressed because rooms have been empty. When rooms are full again, rates will rise, he says.

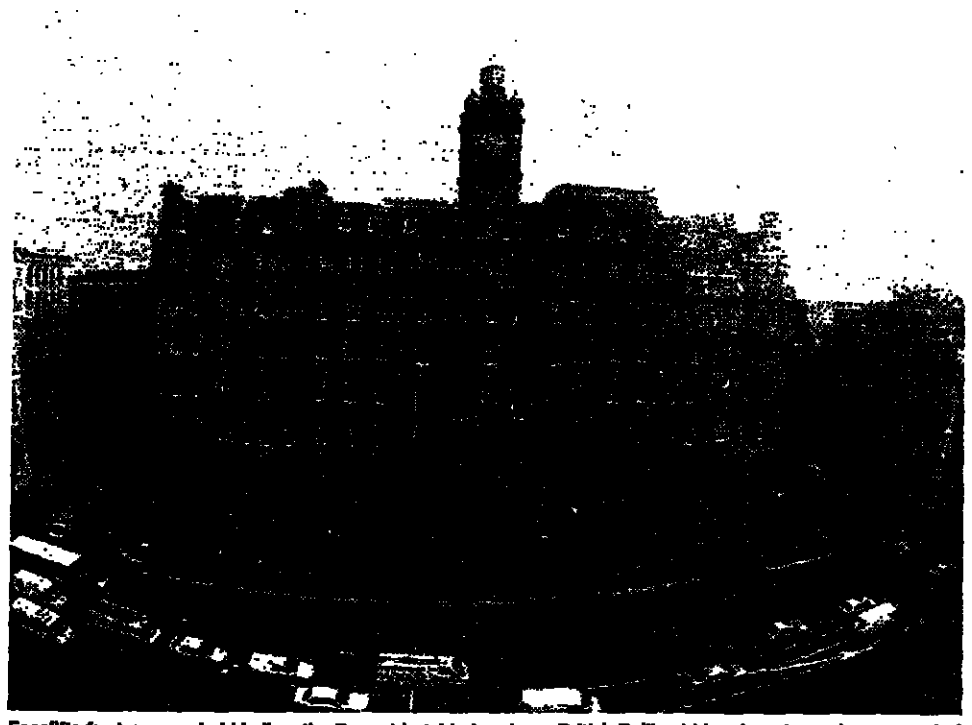
Mr Darryl Hartley-Leonard, the British-born president of Hyatt Hotels, believes, however, that hoteliers need to be aware of a more fundamental change. It is not just that hotel guests have been unable to afford additional luxuries over the past few years. Even when they have more money in their pocket, they will not want those luxuries, he believes.

In a speech to a conference three years ago, Mr Hartley-Leonard recounted the BMW joke, and admitted that Hyatt had been as responsible as any other organisation for the hotel excesses of the 1980s.

He said: "The excesses of the 1980s have become socially unacceptable. We simply need to wake up and take advantage of new times. 'Less is more' doesn't mean quality has to deteriorate. It means that when you serve a Bloody Mary, you don't have to serve a vegetable garden on top of it. Hyatt, as much as any company, was responsible for growing that vegetable garden. It seems that all of us kept piling more and more on to the customer until it became crude."

Three years on, Mr Hartley-Leonard believes the reaction against hotel excesses will continue after an upturn in business.

"What happened in the US and what is happening in many parts of the world is that an element of conservatism is coming in. In the 1970s and 1980s matters got out of control. We created an unstable business environment. That has caused a rejection of waste. Anything that is reminiscent of the excesses of the 1980s is rejected as inappropriate," he says.



Facelifts for two grand old ladies: the Regent hotel in London – British Rail's old headquarters – has opened after a £75m refurbishment; and the International Hotel in Washington DC, also restored to its former glory

Mr Michael Stajdel, senior vice president for marketing and strategic planning at Inter-Continental Hotels, agrees, arguing that the change in hotel guests' attitudes mirrors developments in sectors such as retailing. Customers are not necessarily looking for the cheapest offer but they are considering their purchases more carefully.

Mr Stajdel says: "I don't think any consumer today shops the way he or she used to. We have all changed the way we shop in the supermarket. I look at the labels, the freshness of the goods, and at the overall cost."

Mr Stajdel, who is based in London, believes hotel guests will pay for services, if they believe they are worth having.

So what services do hotel guests value? Hyatt's research shows that while hotel guests want choice, they do not need an excessive amount of it. They expect hotel restaurants to have enough staff to ensure they can be served promptly. Indeed, they want to spend less time in the restaurant than in the past. Offered a choice between a wine list with 100 bottles on it and one with 30, Hyatt says its guests opt for the smaller list.

There are some new services that hotels need to introduce because guests constantly ask for them. Because 63 per cent of calls to its housekeeping departments were for an iron and an ironing board, Hyatt decided it was simpler to put these items in every room.

Hotels in North America, Europe and Asia agree that hotel guests want less hassle and more time in which to work. Business travellers are expected to do more work on their trips than ever before and they are even prepared to pay extra for an environment which enables them to work more efficiently.

This has led to the appearance in hotels of a service which airlines have been selling for years: special business sections for those prepared to pay for them.

Business floors in hotels appeared in Asia some years back. Mandarin Oriental, the Hong Kong-based hotel group, has such floors at its establishments in Singapore, Manila and Jakarta, where guests have their own check-in and check-out facilities and lounges, as well as facsimile machines in every bedroom.

Inter-Continental, which also has business floors in Asia, has now begun to introduce them in Europe. The first was in Frankfurt, and the second is in London.

Mr Stajdel describes the floors as having "the ambience of a private club. It's intimate and clubby. There's a complimentary continental breakfast, a business centre, and a library with reference books and magazines." Guests pay $25-$30 a night extra for the privilege.

Mr Stajdel admits that one of the incentives for introducing business floors is that small, intimate "boutique" hotels had been taking business away from the large chains. He argues that business floors provide guests with the intimacy and service of a small hotel, while still providing access to facilities only available in a large establishment, such as a choice of restaurants and a fitness centre.

Even those hotel guests not paying to stay on the business floors have higher service expectations. Mr Hartley-Leonard says that they now want efficient business services rather than lavish gifts, and they want messages delivered on time and access to telephones and facsimile machines.

If hotels are to deliver these services while still achieving acceptable levels of profits, they need to turn to technology to help them to do so. Technology can help to reduce the amount of time that travellers waste in hanging around.

At Hyatt's hotels at O'Hare airport in Chicago and in Atlanta, the company has been testing automated check-in machines which, if successful, will be introduced throughout North America. Mr Hartley-Leonard says the machines are not designed to replace the reception desk, but to provide an alternative for guests who want simply to collect their keys and go straight to their rooms.

The device looks like a bank's automated teller machine. A guest with a reservation inserts a credit card. Check-in information appears on the screen, the guest taps a series of Yes or No buttons, and the machine dispenses a room key.

Guests can also check out of the hotel by inserting a credit card into the machine, which shows the expenses they have incurred during their stay and prints out a copy of the bill.

Some people might regard the hotel checking-in machine as providing too impersonal a welcome after a long trip. Mr Hartley-Leonard argues that the same was thought about automatic cash dispensers. In time, these caught on.

Overall Performance Measurements* 1992

	Occupancy Rate %	Average Daily Rate $	Total Revenue $	Income Before Fixed Charges $
All hotels	61.6	72.20	32,968	8,469
Africa and the Middle East	60.8	85.82	30,666	8,329
Middle East	72.4	66.21	42,683	13,288
Africa	60.8	85.40	27,265	4,067
Asia and Australasia	69.7	77.93	34,937	9,735
Asia	71.0	84.51	36,985	14,130
North Asia	83.4	65.19	35,4593	10,889
Australia	58.3	85.53	33,138	4,539
North America	60.1	55.13	18,183	3,551
Canada	54.3	69.85	21,427	3,620
United States	60.1	54.33	17,794	3,551
Europe	60.6	77.16	38,363	10,019
Continental Europe	62.4	104.3	44,570	10,243
United Kingdom	58.0	70.41	36,431	10,325
Latin America	58.7	58.05	19,645	2,455
Mexico	60.4	66.31	24,285	2,552
South America	50.1	44.73	15,747	2,775
Caribbean	72.3	29.36	17,639	1,422

*Based on medians. Source: Howarth International

Paul Taylor investigates developments to attract the business traveller

Forget the rudimentaries

Advances in portable computing and mobile telecommunications over the past decade mean that many business travellers now arrive in the hotel lobby carrying a shoulder-bag of high tech gadgets including notebook PC, modem and perhaps even a cellular telephone.

Large hotel chains on both sides of the Atlantic recognise that many guests are no longer satisfied with rudimentary centralised business facilities such as front desk telex machines, aged photocopiers and outdated switchboards.

At the very least, many business travellers now expect a business centre furnished with the latest telecommunications, printing and PC equipment. And some are demanding at least some of these facilities in their rooms.

In the 1990s, when productivity and efficiency are corporate bywords, an increasing number of travelling businessmen and women are sending a clear message to hoteliers that they will no longer tolerate bed-side telephones, cramped desks, inadequate lighting and inaccessible power sockets. Today, they expect to be able to turn their hotel rooms into offices capable of communicating directly with the outside world.

The Hyatt Hotels group is one of the chains which has acknowledged and responded to this demand. Earlier this year, Hyatt announced that all 85 of its US and Canadian business hotels would provide its "Business Plan" facilities by the end of March.

Hyatt's business plan facilities include facsimile machines in every guest room, and business equipment including desktop computers, laser printers, photocopiers and office supplies accessible 24-hours-a-day, on every Business Plan floor.

In addition, Business Plan guest rooms feature large desks, a desk telephone with computer hook-up and enhanced lighting. The desk lamp even has a power outlet on its base so that guests do not have to dive under the desktop to find a socket to plug in their portable PC power adapters.

Hyatt charges its Business Plan guests an extra $15 a day on top of room rate for the additional facilities – which also include complimentary local 800-number and credit card telephone access. If the programme proves successful, it will be extended to Hyatt hotels overseas.

The Chicago-based hotel group developed the business plan after a telephone survey of 500 business customers revealed that 72 per cent feel more "pressure to produce" on business trips than they did five years ago. 58 per cent said they spent "more time working in their hotel rooms than they did five years ago."

All six Inter-Continental and Forum hotels in the UK have added new business products

Other international hotel groups have also begun to respond to these pressures. In the UK, all six Inter-Continental and Forum hotels have recently added an extensive range of new products and facilities aimed at the international business traveller.

These include state-of-the-art business centres, voice mail systems and other advanced telecommunications facilities such as mobile telephone hire.

For example, last year the George Inter-Continental in Edinburgh installed what it claims is the most advanced telephone system in operation in any Edinburgh hotel. Facilities include two telephone lines in each guest room, enabling in-room facsimile services, the allocation of individual private telephone numbers for incoming calls to guests, automatic checkout from guest rooms, and a sophisticated television messaging system.

However, the most extensive refurbishment, totalling £9.5m, is taking place at the Churchill Inter-Continental in London. It includes installation of a new Club Inter-Continental "executive floor" modelled on a concept introduced by Inter-Continental in the Pacific/Asia region two years ago.

Guests staying on the Club floor (which was officially opened at the Churchill earlier this month) have their own swift check-in/check-out facilities on the floor. Multi lingual staff are available to assist with business and travel arrangements.

Each Club floor guest room features a dedicated fax/modem line in addition to an international direct dial telephone line – fax machines are available on request and are supplied in all suites. Transatlantic travellers in particular will appreciate the dual 110/220 voltage power sockets in each room.

By providing such specialised business facilities, hotels hope that they will retain a competitive edge over their rivals and continue to attract the all-important business traveller. Features such as extra telephone lines and in-room facsimile machines certainly provide the business traveller with added convenience. Others make hotel bedrooms more "office-friendly". Nevertheless, technology is already helping the seasoned traveller overcome many of the limitations of less well-endowed establishments.

For example, portable high-speed fax-modems – including some which plug into the credit-card sized PCMCIA slots on the newer notebook computers – now enable portable PC users to send and receive facsimile message directly from their screens via a standard telephone line.

If secure voice-only telecommunications are required, then the business traveller will soon be able to use one of the new pan-European GSM-standard digital cellular telephones to make a telephone call almost anywhere in Europe.

Where hard-copy paper printouts are required, lightweight high quality portable printers are now available, as are notebook PCs with in-built ink-jet printers – such as, for example, those from Canon – and portable facsimile machines.

But despite miniaturisation, squeezing all this gear into a shoulder-bag – let alone operating it – can require considerable skill and cunning, and lifting the bag may still require weight-training.

The Plaza in New York: 'communicating directly with the outside world'

Christopher Price finds that conferences provide a safety net

Smaller venues work better

While discounted room rates and empty beds have become the norm during one of the industry's worst downturns, conferences have emerged as a vital part of many hotels' financial well-being.

As a result, many hotels are expanding their facilities and increasing investment in an attempt to win a bigger market share. The importance of the conference business should not be underestimated. For a primary business centre hotel, industry estimates put earnings from conference business at between 30 per cent and 40 per cent of total revenues. (Those in the industry stress that these revenues are additional and do not displace other sources of income.)

They are particularly important out of season, and one of the main developments has been in the type of venues required. "Meetings used to be held in very large venues in big gateway centres," says Ms Cam Cooper, vice-president of conference sales at Holiday Inns. "Now the trend is towards regional and secondary market meetings."

Mr Rik Danielson, managing director of sales and marketing at Forte, says the demand for conferences – and for a wider variation in venues – is partly the result of advances in information technology. "Training and information conferences have become the important way to re-tool for the 1990s."

While demand has, in the words of one hotel company executive, been "solid" during the recession, there are signs that the recovery will give the conference trade a further boost. Meridien Hotels, the French-owned international group, reports a doubling of conference inquiries in the past year, and a similar rise in converted bookings. Two-thirds of the confirmations are in Europe.

Mr Danielson believes this is also because conference organisers put more emphasis on quality than on getting reduced prices. In a recent poll of organisers conducted in the US, the most important requirements from hotels were also the most basic: good-sized well-fitted meeting rooms, basic materials such as projectors and stationery, and efficient service. The package price was well down the list.

Not surprisingly, hotels are concentrating their efforts on improving their service

Not surprisingly, hotels are concentrating their efforts on improving their service, while at the same time trying to keep ahead of the opposition. All the big international hotel chains have moved to coordinate their conference business.

For example, Holiday Inns has introduced its Conference Network system which aims to underline the group's consultancy role.

Videoconferencing is one area being given much attention, as are more basic items such as en suite fax and video facilities in all meeting rooms.

Incentive travel is another source of additional income allied to the conference business. Travellers are often participants in VIP packages and receive corresponding service. "Consequently the hotels enjoy the revenue from banquets, gala dinners and special themed events taking place under their roof," says Ms Sarah Webster, executive director of the UK-based Incentive Travel and Meetings Association, "plus all the extras from room service".

However, there are some elements of concern in the industry. The number of venues offering meetings facilities has grown significantly and, despite reports of growing demand, some hoteliers privately tell an opposite story of intensifying competition and consumers beginning to shop around for the best deals.

The growing trend to hold shorter meetings is undermining the lucrative accommodation spin-off.

Running costs are also high, and there are worries that a rash of special package deals introduced by some of the large chains to fight off smaller more flexible – and cheaper – rivals, may become the norm.

Repeat business has become a high priority, says **Christopher Price**

'Come back and see us'

As competition has intensified in the hotel market, so also have the hoteliers' efforts to retain their existing customers. Loyalty programmes have become an integral part of the international hotel industry's operations.

More attention to service, room rate discounts, special packages and subsidised restaurants have always been a part of the industry to a greater or lesser extent.

But the ferocity of the recession has focused attention on what may have once been considered marginal extras, and many chains have now attempted to quantify these into a package designed to retain customer loyalty.

The basic tenet of all the programmes is that the more frequent the stay, the higher the reward for the customer. Airline flights, car hire, restaurant meals, and sporting facilities were the main benefits originally offered to encourage repeat business. All of these items are now included in the large number of loyalty packages employed by the luxury hotel chains. And in the drive to make the programmes more "personalised", intrinsic services such as newspapers delivered to rooms, room upgrades, cheque cashing, express reservations and check-in have become prerequisites.

Marriott, the big US international hotelier, was a pioneer of loyalty programmes. Its Honored Guest Award scheme – begun in 1983, now with 5m members worldwide – is typical of the genre.

Members earn points during each Marriott stay which can be exchanged for travel awards. And in line with recent developments, the hotel has joined with a variety of associated organisations to make the programme more attractive: British Airways, Continental, Delta, Northwest, TWA and USAir are some airlines included. Car rental, cruise ships and associated hotel groups are also involved.

It is a similar story at Holiday Inn Worldwide: its Priority Club has a membership of 4m. Mr Ken Pierce, vice-president for Worldwide Frequency Marketing at the company, says that one positive benefit has been the huge amount of information and feedback from their most frequent customers. "The customers now have a reason for telling us exactly what they want, simply because they now have an incentive for returning."

"Loyalty programmes work for the very frequent traveller, and for the hotels there is evidence that they do build some degree of loyalty," says Mr Rik Danielson, managing director, sales and marketing, at Forte. "But there is no evidence of them stealing market share."

Mr Pierce agrees. "Marriott's launch in the US did initially give it an advantage, but now everyone's doing it and the advantage has slipped away." He adds: "Whether it's a zero sum game is a subject of hot debate in the industry. You can reach a level of parity, but the programmes give an organisation the chance to maximise its strengths.

"In the case of companies such as Holiday Inns, we capitalise on being in a large number of locations, against a smaller or regional operator. And there are other situations where our huge distribution ability gives us the advantage."

Mr Danielson worries that too much time and effort might be put into loyalty programmes at the expense of other services. "The industry battlefield is loyalty programmes, there's no doubt about that. But the question we must keep asking is: are we spending too much on these at the expense of basic services? Another flaw with these programmes is that they are designed only to keep customers, not to entice new ones."

Despite these misgivings, most industry executives agree that loyalty programmes are here to stay. Mr Pierce believes the future will see competition between programmes intensifying.

"The programmes are likely to become more focused as databases grow in detail. This will lead to a shift in advertising as less expenditure is put into broad advertising coverage and more into individualised schemes."

He also believes that partnerships between hotels and other organisations, to attract and retain customers, will grow and incorporate a whole new range of retail groups.

Mr Danielson foresees fewer customers at the top level, but a sector of customers who are more selective. "What makes today's customers different is that they really expect to receive value for money," he says.

Market Data* 1992

	All Hotels %	Africa & the Middle East %	Asia and Australasia %	North America %	Europe %	Latin America %
Domestic	47.0	18.2	33.6	85.3	47.4	53.5
Foreign	53.9	81.8	67.4	14.7	52.6	46.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Repeat Business %	36.7	32.7	32.9	41.0	35.5	47.1
Composition of Market						
Government Officials	3.9	11.3	4.6	6.5	1.8	4.9
Business Travellers	33.6	38.6	30.7	28.5	37.4	32.6
Tourists (individual)	24.6	9.4	27.4	26.1	22.9	24.8
Tour Groups	17.4	13.6	20.1	7.8	16.6	23.4
Conference participants	11.3	7.8	7.5	22.9	12.1	8.2
Other	9.2	19.3	9.7	8.2	9.2	6.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

* Arithmetic mean

Source: Horwath International

Sarah Wilkins considers the needs of women travellers

Gender goes on the agenda

Female business travellers are finally being treated like their male counterparts and not as either inferior or non-existent guests.

Compared with 10 years ago, hotels are responding more positively to the lone woman guest – and the woman host in hotel restaurants. Discrimination still lingers, however, particularly with older staff, but examples are few and far between in the mid-1990s.

It has been a long haul. Hotel amenities have slowly improved for women. Hair dryers are the norm. There is better lighting; bathrobes; skirt hangers; ironing boards; door spy holes and door chains. (These benefit the male guest, too.)

But lobbying by the female travellers' sorority was not only about amenities. Staff attitudes and certain procedures were also criticised. Security issues were central. Allocating women rooms at the end of long, dark corridors, for example, or reception staff loudly calling out room numbers at the check-in desk, were two worries. Technological advancements – such as plastic, numberless, computer-driven key cards presented in discreet folders, and the disappearance of the key display behind the counter – have helped reduce the latter concern.

At first, those few hotel operators bothered enough to take action went too far, giving women special products and treatment which only served to alienate those the hotels were trying to reach. (Ironically, Crest's – now owned by Forte – "female rooms", called Lady Crest, were requested more frequently by male guests than by their target customers.)

The Victoria and Albert hotel in Manchester offers a ladies' wing monitored by video cameras and equipped with panic buttons. Women do not want to be singled out for special treatment; this can be patronising. What they want is equal treatment in service and courtesy offered – and not to be ignored.

"The thing which really annoys me about hotels is that I always get the room with the longest walk to the lift and, in a restaurant when I'm entertaining a man, unless you make it clear that you're the host, the waiter inevitably presents the bill to the man," says Julia Clark, a public relations consultant.

'Women just want the same recognition as men'

Hotels are now at least finding out what female travellers want. Surveys abound – most of which conclude with what women have been saying all along: "Treat us the same." One such survey was undertaken by Hyatt Hotels & Resorts earlier this year. "Women don't want preferential treatment, they want just the same recognition as men," explains Jim Evans, senior vice president, sales and marketing, for Hyatt Hotels Corporation.

The survey highlights the fact that extra security is important, and so are services such as extended room service hours and valet service, a choice of informal venues where women can enjoy a drink without feeling self-conscious, and the request for better in-room amenities. "Many of these services are also appreciated by male business travellers, so additional services are added because of, but not specifically for the female business traveller," says the survey.

American businesswomen travelling in the US have a better time of it; US hotels woke up to this new market sector years ago. Women now account for an astonishing 40 per cent of the total US travel market (Hyatt reckons a more conservative 25-30 per cent) and, on a global basis, a figure of about 25 per cent – and growing fast. By the year 2000, only six years away, it is estimated that women will represent half the business traveller market. In the UK, American Express reckons the women's market share is nearly 20 per cent of all travellers.

In a hotel market hit by recession, travel suppliers are putting gender on the agenda. Smaller, less impersonal, "boutique" hotels, many managed by women, or with a higher proportion of female management, have eased the problem. So has women's improved confidence; they are more likely to be vocal – and to vote with their feet.

Restaurants, often the domain of older staff whom changes in society may have passed by, remain an area of concern.

Most have not had the experience of treating women on an equal footing and prove impervious to change. Ramon Pajares, general manager of the Four Seasons Inn on the Park hotel in London, stresses that older staff need more training. It is commonplace for a woman dining alone to be given the worst table in the house – next to the lavatory or the kitchen door. No wonder most women take room service and an in-room movie for their evening's entertainment.

The emergence of hotel executive floors has alleviated this to an extent; the better ones offer complimentary canapés in a small, friendly lounge area – a far better option than being snubbed in a public restaurant.

Wine waiters are good at snubbing women – they tend to offer the wine to the male guest to taste, although the female host has just ordered it. Similarly, there is still a tendency to give the bill to the male guest, although it was the woman host who asked for it – and, finally, to return the credit card, clearly bearing the name of the female owner, to her male guest.

But if this is the last hurdle, then female business travellers have at least made progress.

INTERNATIONAL HOTELS III

Hotels across Europe have suffered in the recession, writes **Michael Skapinker**

A shortage of customers persists

When Ciga, the debt-laden Italian luxury hotel chain, went on sale last year, potential buyers were almost crushed in the rush.

Forte, the UK hotel group and an early front-runner, admitted defeat when it decided the sums being offered were more than its shareholders would be willing to bear. Mr Stephen Bollenbach, president and chief executive officer of Host Marriott of the US, another unsuccessful bidder, says he was extremely disappointed not to have captured the chain – which lost L195.43bn last year. The winner, ITT Sheraton of the US, paid more than L900bn for Ciga, a sum which left the hotel industry gaping with astonishment. What did all the potential buyers see in a company in such a parlous financial state?

Ciga's properties are certainly prestigious; they include the Grand in Rome and the Danieli in Venice. But not only is Ciga a financially troubled group; it also operates in a severely depressed market.

Most European hotel markets are suffering from a shortage of customers. Mr Michael Ball, sales and marketing director of Utell International, which handles reservations for hotels around the world, says: "The economic outlook for Germany, Spain and Italy must remain at best questionable."

Hotels in France have suffered in the recession. Mr Bryan Langton, chairman of Holiday Inn, says that while the volume of business in Germany has not dropped, "we're seeing dramatic pressure on room rates of the sort we saw in the UK when it went into recession".

The UK, and London in particular, is seen by several hotel groups as the only bright spot in an otherwise gloomy market. But a recent survey by the Horwath hotels and leisure consulting group throws into question how robust the UK recovery really is.

Mr Geoff Parkinson, a Horwath director, says the performance of hotels in England last year was "patchy and inconsistent". The survey, conducted in association with the English Tourist Board, found that average room occupancy last year was 48 per cent, the same as in 1992 and well below the figure of 57 per cent achieved in 1989 and 1990.

'Too many are unsuited to the modern business traveller'

In London, which some people in the industry believe is achieving better results than the UK provinces, occupancy actually deteriorated last year. It was down to 56 per cent, compared with 57 per cent in 1992. The capital's luxury hotels – those charging more than £85.50 a night – achieved annual occupancy of 65 per cent: reasonably healthy but still no higher than 1992. The last quarter of 1993 was particularly disappointing for this category of hotel.

The lowest priced hotels in London – those charging less than £56 a night – suffered a fall in occupancy to 52 per cent from 57 per cent in 1992.

The only encouraging sign in the London market was hotels that charge between £56 and £85.50 a night. Their occupancy rose to 57 per cent last year from 53 per cent in 1992. But even this compares with a figure of 71 per cent in 1989.

Mr Parkinson did see some cheer in the survey results. He says: "What the figures do show is that the slide in occupancy, which took place in 1991 and 1992, has stopped. First indications are that 1994 will begin to show an improvement." He warns, however, that low occupancy had led to a decline in achieved room rates. This "leaves little margin for re-investment – something which, for many hotels, is now becoming urgent."

If this was the trading picture in Europe's healthiest market, why are some investors still so keen on buying hotels? Mr Paul Slattery, a hotels analyst with Kleinwort Benson, believes that one needs to look beyond the current European economic downturn.

In the UK, he believes that hotel-using companies are likely to retain the system of strict cost controls they developed during the recession. They will increasingly book rooms through large hotel reservations organisations.

Despite the current French recession, Mr Slattery is optimistic about the longer-term outlook for the country's hotels. France's expanding national chains of retailers and financial services companies will generate increased business for hotels around the country, Mr Slattery believes. He adds that France's privatisation programme will increase hotel use too; newly-privatised groups will be hungry for business, sending their employees travelling to win new contracts.

Mr Slattery argues that the longer-term outlook for German hotels is also cheerful. The country's economy is heading for a period of restructuring. The manufacturing sector will have to increase productivity and reduce wage costs to compete internationally, but the service sector will grow, generating increased demand for hotel rooms.

Mr Roger Garland, executive vice president of Four Seasons Hotels, the Toronto-based luxury hotels groups, argues that too many of Europe's prestigious establishments are unsuited to the needs of the modern business traveller.

He says: "There's a significant opportunity to build modern, highly-efficient hotels in the European market. If you look carefully at any European market, you'll see hotels with a lot of style but which are badly run."

Laurie Morse looks at North America

Feeling at home

Imagine coming home after a hard day at work to a round of cocktails in your sitting room, then lighting a fire in the hearth and relaxing, looking out over a garden courtyard.

Perhaps later in the evening you order the week's groceries by telephone, and fix a light supper. In the morning the day's newspapers will be delivered free to your door, and you look forward to sharing a cooked-to-order breakfast, also free, with your neighbours.

If this does not sound exactly like home, that is because it is increasingly the way US hoteliers make travellers feel at home away from home. Do not be deceived by the perks, because this treatment is considered "limited service", and can be far less expensive than full-service hotels. For business travellers required to make long sojourns at a single location this trend is particularly good news, because rock-bottom prices become even lower for extended stays.

A large part of this trend is the proliferation of "all suite" hotels, which offer separate living and sitting rooms, and often a mini-kitchen. This arrangement is a boon to women business travellers who appreciate having a separate bedroom and meeting area, and to families who can take advantage of fold-out couches in sitting rooms and "kids stay free" policies to trim vacation costs.

After 11 years of consecutive losses, the US hotel industry made a profit in 1993, thanks to aggressive cost-cutting and a turn to no-frills properties catering to travellers' budgets and comfort in equal measure.

Recovering from record $5.2bn in losses in 1991, the US hotel industry is clawing its way back. Mr. Bjorn Hanson, chairman of the National Hospitality Consulting Group from the international consulting firm Coopers & Lybrand, says that big debt restructuring, tax relief, and significant reductions in management costs have earned the industry some breathing room.

He estimates that debt restructuring alone will save the industry some $2bn a year. But he believes that return to profitability will not result in significantly more hotels, but in smarter marketing strategies. His data show that for each dollar of revenue, a hotel earns 75 cents profit per room. In food service, a hotel makes only 18 cents profit on each dollar of restaurant income.

As a result, new hotels, mostly in suburban locations, are leaving out in-house restaurants and the lobby bar, and asking guests to visit nearby restaurants for dinner.

The savings are so great to the hotels that management usually throws in a complimentary breakfast for guests' convenience, and in some cases a free afternoon cocktail hour.

Two-room suites, free breakfast and cocktails are standard

The strategy is catching on quickly. Smith Travel Research reports that nearly 50 per cent of new hotel rooms which opened in the US in 1992 were suites, appealing to the more up market traveller and another 14 per cent were moderately-priced limited service hotels.

Large US hotel chains, still operating flagship full-service properties, are diversifying under separate brand names into all-suite, all-suite extended-stay, and economy class reduced-service chains. Often the big operators are buying existing hotels and coverting them to the suite concept, with substantial cost savings.

The leader in the suite hotel concept is Embassy Suites, with 109 properties in 31 states, and international hotels under development in Bangkok, Thailand and in Mexico.

Owned by Memphis-based Promus, Embassy Suites caters to upscale business and leisure travellers. Two-room suites, two telephone lines, mini-kitchens, free breakfast and cocktails are standard at the properties, which are priced according to location but average between $99 to $115 per night.

Other expanding all-suite chains include Guest Quarters Suite Hotels, and Crown Sterling Suites. The extended-stay segment of the all-suite hotel market is dominated by Residence Inns, property of international hotelier Marriott.

Residence Inn offers studios with 50 per cent more room than the normal hotel room, and at least 75 per cent of the rooms include fireplaces. Free breakfast and cocktail hour and free local telephone calls are standard, while services like grocery shopping, meal delivery, and laundry are also available. Marriott has 179 of these properties scattered around the US.

Promus is also competing for the long-term visitor, with its Homewood Suites offering similar amenities. The industry's definition of "extended stay" is five or more nights.

However, Marriott research shows that the average stay is 13 nights, and that international visitors stay an average of 26 nights at its Residence Inns. Prices range from $75 to $105 per night and are lower for longer stays.

The US has a proliferation of budget motel chains, often strung out under the glare of freeway lights close to airports and suburban shopping areas. However, a new generation of economy hotels has arrived. These generally have the benefits of new construction, with spacious rooms, key-card security, and cheerful lobbies where generous free breakfasts are served buffet-style to guests.

Owned by the larger hotel chains, these properties usually allow children to stay free; allow three or four adults to stay at a two-person rate; and offer special price packages for senior citizens. Managed to appeal to low-budget business travellers and leisure travellers on their way to vacation destinations, these hotels are typically priced between $40 and $50 per night.

Marriott's Fairfield Inn and Promus's Hampton Inn hotels are typical of this class. Both these chains were started in the mid-1980s. Hampton Inn now has 376 hotels in 44 states, while Fairfield Inn has more than 130 properties in 37 states.

Nicholas Lander investigates the phenomenal rise to fame of the hotel restaurant

Star chefs are in a transfer market

Hotels adopt varying tactics to keep their restaurants in the news

If the Edwardian gourmet, Colonel Newnham-Davis, gastronomic correspondent of the Pall Mall Gazette before the first world war, were to return to London today he would not be too surprised at the location of some of the capital's finest restaurants.

Eighty years ago he was accustomed to dining in splendour at the Savoy, the Ritz, Claridges or the Berkeley. These hotels still prosper, but if Newnham-Davis were to pick up the 1994 Michelin Guide he would see that, in the gastronomic league table, their dining rooms have been surpassed by other hotel restaurants. Two of London's three two star Michelin restaurants are in Forte-owned hotels – Chez Nico at the Grosvenor House and the restaurant at the Hyde Park.

The third, Le Gavroche, supplies meals to the bedrooms upstairs at 47 Park Street, part of the Demeure hotel group. Of the 11 one star Michelin restaurants in London, five are in big West End hotels – the Capital, the Connaught, the Oak Room at Le Meridien, Piccadilly, the Four Seasons at the Four Seasons hotel, and the Oriental at the Dorchester.

This phenomenon of the impressive hotel restaurant is not confined to London.

Monte Carlo boasts the Hotel de Paris (where the chef is Alain Ducasse); Washington DC has the Watergate (chef Jean-Louis Palladin); San Francisco has Postrio in the Prescott Hotel (chef Wolfgang Puck). Dallas is home to the Mansion on Turtle Creek (chef Dean Fearing).

In France, the country's most highly-esteemed chef, Joel Robuchon, has moved out of his own restaurant, Jamin, to take over the kitchens and restaurant at Le Parc Victor Hugo, another Demeure hotel.

The most surprising thing about this transformation has been the speed with which it has taken place.

Hotel dining rooms used to be, with one or two exceptions, dull and uninviting – and almost invariably empty. They stood as necessary but uncared-for appendages to supply the much more profitable banqueting suites and room service to the bedrooms.

In 1971, when 27 hotels opened in London as a result of the bedroom building subsidy granted by the then Labour government under the premiership of Harold Wilson, just two hotels were renowned for the excellence of their food: the Connaught and the Savoy.

The Savoy's head chef, Silvano Trompeto, was the only well-known hotel chef.

Continued on next page

Asia's deluxe hotel market is at saturation point, writes **Sarah Wilkins**

Budget brands spell growth

Asian hotels are considered the best in the world. They collect most of the accolades and awards to prove it. Their facilities and service levels are second to none; the envy of hotels outside the region.

But future growth in this burgeoning region will come less from the deluxe category of hotel and more from the moderate three and budget four star hotel. Quite simply, the big cities of the region, from Bangkok and Hong Kong to Jakarta and Singapore, are at saturation point with deluxe hotels. Supply exceeds demand and room rates are soft in much of the region. In Singapore, Bangkok and Jakarta it is a buyer's market. Hong Kong remains an exception: rates appear to have hardened.

Many of the big hotel operators have a two-prong strategy: to move on to secondary and even tertiary cities with their top-of-the-line brand in a bid for market share – Surabaya is "flavour of the month" in Indonesia, for example – and to introduce a budget brand in either the important or secondary sites – or both.

The Shangri-La hotel group is typical. It is doubling in size in the next six years; all new hotels concentrated in the Asia Pacific region. A Shangri-La hotel opened in Taipei in March this year, the tallest in the city, followed by another in Jakarta. Surabaya will open before the end of the year. To augment its main line brand in Singapore, it is opening a three-star Traders brand property there early next year.

"Traders hasn't got momentum yet, but it will be an important thrust in certain destinations," says David Hayden, chief operating officer of the group. "The future is in three or four star in Asia."

Omni, the Asian four-star hotel operator, is expanding into China

At present the Shangri-La Traders brand only exists in China. It is in Beijing, adjacent to a Shangri-La hotel in the downtown area. Its success, as a no-frills product, has spurred the group to expand.

Fuelling the growth in more budget-priced properties is the growth in numbers of the regional businessmen and women, Taiwanese and Chinese in particular. Of the two countries, China seems the main attraction for the development of more cost-conscious hotel expansion. With China fitfully awakening, expected to become a centre of economic growth as an export power and a market of 1.2bn potential consumers, hotel investors are queueing up.

The whole of IndoChina is also ripe for hotel investment, although Vietnam, followed by Cambodia, heads the wish list of investors, rather than Laos or Myanmar (formerly Burma). US President Clinton's recent lifting of trade sanctions between the US and Vietnam has opened the floodgates for American investment and Japanese investment will not be far behind. InterContinental is set to announce a deal in Cambodia's capital, Pnom Penh.

Sheraton, the large American hotel chain which has 45 properties throughout Asia, is ready to expand in the region. While it is pushing ahead with its Sheraton brand – there will be openings in Kuala Lumpur in 1996, and a second site in Bangkok – it is developing a four-star brand for Asia, specifically for China. "They will service the growing indigenous population of businesspeople," says a spokesperson.

Omni, the Asian four-star hotel operator, is also expanding into China. By the end of next year it will open an Omni Marco Polo hotel in Xiamen, Fujian province, in southern China, an old trading port and strong secondary city halfway between Hong Kong and Shanghai.

"It's an old Taiwanese homeland, so there's high Taiwanese investment," explains Michael Hobson, vice president, sales and marketing, of Omni Asia Pacific, talking about the financing of the project.

Omni's three hotels on Kowloon side, Hong Kong, are part of the Harbour City Complex which has restaurants, offices and 1,000 shops. Likewise, its newest property, in Ho Chi Minh City, Vietnam, which opened in February this year, is also a mixed use project. The group is also looking for a suitable site in Hanoi, a city in desperate need of more, good hotels. At present the Metropole, a Sofitel-managed hotel, is the only western-style hotel in the city

Choice, the US mid-market hotel operator, is pushing ahead with budget accommodation in Asia, with the biggest thrust in Thailand. There is a serious lack of "dependable accommodation below the five-star luxury level" there, claims Brendan Ebbs, senior vice president of Choice's International Division. Six budget Sleep Inn hotels are on the drawing board for Thailand, while its Quality (three star), Comfort (two/three star) and Clarion (four star) brands are already represented in nine properties in Thailand. The opening of a Clarion resort this summer at Trang, near the Malaysian border, makes 10. The chain will open its first hotel in China: a Clarion, near Shanghai, this summer.

Other budget hotel groups operate in the region. Southern Pacific Hotels is opening a three-star property, the Ancol Travelodge, in Jakarta in October this year (dubbed "the Disneyland of Indonesia" by spokesperson Bob James): a 310-room city resort located near the harbour. It will be marketed as a gateway to the 1,000 islands.

In Kuala Lumpur, Southern Pacific is augmenting its current hotel with the opening, this December, of Travelodge Apartments, seeking to take advantage of the long-stay market in the city. The apartments will be located in the former race course site, being developed as a commercial centre called the KL City Centre.

In a similar venture, Westin, the US chain, will open an all-suite hotel in Bangkok early next year "for the person who doesn't have to make a statement – the discreet traveller," explains Dennis Johnson.

It seems that, at long last, the business traveller on a tight budget to Asia will soon have a wider choice of hotels.

INTERNATIONAL HOTELS IV

The hotel market in the former Soviet Union and eastern Europe is struggling to catch up with demand

It is hard to beat a way into Moscow

When a couple of cleaning ladies launched a $10m lawsuit against a leading western-managed Moscow hotel for their allegedly unfair dismissal, their tale joined the list of horror stories the western business community likes to tell about the hazards of investing in Russia.

"This country is crazy, you know... the judge will probably award them the money," said one western construction executive. "Oh, no, they won't. The judge is simply waiting to

Problems include ambiguous property rights

be paid off not to," said another western entrepreneur, involved in tourism.

The ladies apparently hit on the amount of $10m through a mistranslation of the conditions of a strict merit system. This had been introduced by the Radisson group, which manages the hotel in question, and said that employees were free to determine the size of their bonuses.

The story also points up the particular difficulties facing western companies involved in building, refurbishing, and managing hotels in Russia. Despite being one of the Russian capital's favourite hotels for western visitors, with more than 85 per cent occupancy, the Radisson-Slavyanskaya Hotel shares many of the difficulties facing hoteliers in Russia.

The advantages of a western-managed hotel such as the Radisson are also clear: with demand for quality rooms outstripping supply in Moscow, such hotels command a seller's market, despite the gradual encroachment of some degree of competition as new projects are – painfully – completed.

The rewards to be made by those who have succeeded in beating their way into the market are increased by the considerable obstacles to others entering the market.

Apart from a primitive legal system, ill-adjusted to the complexities of market economics, problems include ambiguous property rights, and consequent difficulties in raising finance for new projects. In the case of the Radisson-Slavyanskaya Hotel, the question of who actually owns the building remains the subject of competing claims among successor state and semi-state organisations to Intourist, the former state monopoly.

In addition, the authorities' powerlessness to enforce their own rules may be illustrated by a railway workers' relaxation club still standing on the grounds of the hotel, despite an order for its demolition by the mayor's office in late 1992.

A major factor slowing down the building of new hotels, as well as the refurbishing or rebuilding of Moscow's decrepit old hotels is the difficulty raising finance for Russian projects - partly because of the absence of a system for lenders to register their legal charge, and of a legal system capable of enforcing their rights.

Endless rows over the ownership, financing, and management of the decrepit Hotel National, on a prime site just opposite Red Square, have meant it is still under scaffolding more than two years after work started.

Some Moscow city government officials had promised Rogner, the Austrian construc-

Progress towards more transparent decision-making

tion group, a crack at managing the hotel in compensation for payment delays for the renovation.

This in turn has clashed with a contract signed by other Moscow authorities with Marriott, the US hotel group, for it to manage the hotel. Other bits of Moscow's byzantine city administration have decided to hold a tender to select yet a third western company.

But after just two years of market reforms, some progress is being made towards more transparent decision-making, and time is likely to cure many of the worst problems of Russia's infant capitalism.

Leyla Boulton

Sentiment in Warsaw

The quality of Warsaw hotels is uneven at best, but the city presents the sentimental traveller with an unrivalled opportunity to relive most post-war eras, as the Polish capital slipped from Stalinism in the 1950s to the political and cultural thaw of later years, and on to the entrepreneurial free market present day.

Few remember, for example, that the fin de siècle Polonia near the main railway station, now catering to the rougher end of the market, was once – in 1945 – home to the entire diplomatic corps in a rubble-strewn city still waiting to be rebuilt.

That reconstruction resulted in the stern Stalinist interiors of the Warszawa hotel – ideal for those wanting to indulge in Le Carré spy fantasies – and the down-at-heel Grand, originally built in the 1950s, for bureaucrats coming into Warsaw ministries to arrange for allocations of ever-scarce resources.

The Grand remains a handy place to await tardy decisions from the privatisation ministry next door – recognised as such by SG Warburg, a faithful government adviser which appears to have rooms there, as offices, for the duration.

Next comes the 19th century Europejski with its faithful clientèle and low prices which help to make up for the lack of refurbishing needed to enhance its potential as a provider of old world charm.

The Marriott hotel chain came to the city five years ago

Across the road stands the Bristol Hotel, once as shabby as its neighbour, but it has been relentlessly restored by Forte. Now it holds pride of place as the classiest and most expensive of the city's hotels.

Long gone, though, are the days when the bars in both these hotels were home to the rebellious intelligentsia and the communist party liberals, as well as to the foreign press reporting the 1956 liberalisation, when Poland was the "merriest barracks in the Soviet camp".

The foreign loan-financed investment boom of the 1970s saw the building of the Forum Hotel at the busiest intersection in Warsaw: an upright shoe box design, devoid of charm. It seems invariably to host package tours of elderly Polish Americans and young Israelis all intent on seeking their roots.

The Victoria Inter-Continental, convenient for the finance ministry and within view of Warsaw's chunky opera building, was also built at that time and still attracts a steady stream of bankers and businessmen.

Marriott came to the city five years ago. This will be forever linked to the early days of Poland's free market reforms, when it catered to western businessmen eager to take advantage of opportunities then opening up, and the publicly funded advisers – ironically called the Marriott brigades – who then streamed into the country.

At the same time, a few hundred yards away, the Holiday Inn, finished in 1988 just a few months before the Marriott, housed (as it still tends to do) the local businessman taking advantage of similar opportunities.

Later additions to the hotel scene lack lustre. The Sobieski, sited on the way in from the airport, has a colourful exterior but suffers from a lack of air conditioning in the summer. And the Mercure, a French Accor group project, has yet to acquire a character.

Christopher Bobinski

Prague offers diversity

Since the collapse of communism in central and eastern Europe, Prague has been one of the most popular destinations for visitors to the region.

But while the huge influx of visitors has been good news for local tradesmen and commerce, it has caused overcrowding at favourite sightseeing spots such as Charles Bridge and Prague Castle, and suitable accommodation has been both more difficult to find and more expensive.

The flow of tourists seems to have slowed this winter, though it may pick up again in the spring and summer, and it has been easier to book a hotel room. Scarcity of accommodation, however, means that prices remain high even in comparison with other European capitals, and the quality of service has yet to catch up with prices.

Luxury class international hotels include the Forum, just two metro stops away from Wenceslas square; the new Atrium, which is slightly off the centre but boasts extensive business facilities; the Intercontinental, not far from Old Town Square; and the Jalta, on Wenceslas square.

All these hotels are, broadly, "modern" buildings, except for the Jalta which has been completely refurbished with pleasant rooms overlooking the square. The Jalta is less formal and staff tend to be more friendly.

Hotels continue to charge foreigners several times more than the local residents for the same room – an unacceptable hangover from former communist days when westerners were seen as a source of easy money.

Bed and breakfast in a private home will be cheaper

For those who do not wish to pay $200 or more per night, there are a few smaller hotels on the Mala Strana side of the river. Alternatively, if you are planning to stay for a week or longer – and having a telephone or someone to take messages while you are out is not absolutely essential – bed and breakfast in a private home will be cheaper. The Czech tourist office should be able to provide you with a list of accommodation, but it is important to remember that you will need to do your own shopping for basics and that few people speak English in local shops.

The quality and speed of service varies considerably even among the more expensive hotels, confirming the old adage that paying more does not necessarily mean better treatment. It is best to be patient.

Prague has quickly adapted to some less appealing western traits, and petty crime and thefts have risen considerably in recent years. Don't leave a car with a foreign number plate parked on the street at night, but use the hotel car park or one of the few car parks near the city centre. (The latter are expensive, but your car will be safe.) Street parking in the centre of town is almost entirely limited to permit holders, so choose your spot carefully, otherwise your car could be clamped – and possibly towed away. It will take time and the payment of a fine to get it back.

The large hotels usually have their own taxi service. These tend to be more expensive than a cab hailed in the street, but if you do not speak Czech they are your best bet. Taxi ranks in the city centre, such as the one on Old Town Square, should be avoided, as drivers sometimes refuse to switch on their meter and substantially overcharge. Local radio cab companies such as AAA are reliable. You may get a battered old Skoda for the ride, but the drivers tend to be more friendly and honest.

There is a good clean airport taxi service which will bring you to the centre of Prague in about 40 minutes, depending on traffic, for less than Kcs500. The choice of duty-free goods at the airport is limited and you can pay only in hard currency, so if you plan to take goods home, they are best bought while in town.

Czech cuisine is not for the faint-hearted and tends to be heavy. There are some reasonable white wines, though the local beer is by far the best drink. There is a wide choice of restaurants offering a mixture of Czech and international food around the centre.

Patrick Blum

Chefs' stars create a transfer market

Continued from previous page

Hotels in those days had dining rooms, not restaurants: and many newly-opened hotels in the 1970s opted for 24 hour coffee shops, followed the American fashion.

David Levin was the first to challenge this.

He opened the Capital Hotel in Knightsbridge which, in the French tradition, he called "a restaurant with rooms" rather than a hotel with a dining room. Across Hyde Park, hotel restaurants were given another shot in the arm by the arrival of Anton Mosimann at the Dorchester – where he was actively promoted by the controlling McAlpine family.

In 1974, Michelin produced its first red guide to the UK. Awarding stars to hotel restaurants immediately identified the chefs.

For the first time, diners went to eat Michel Bourdin's food rather than simply to dine at the Connaught – just as they went to discover what Peter Kromberg was cooking at the Inter-Continental, or Bernard Gaume, at the Hyatt Carlton.

A distinctive hotel restaurant has become essential

Competition between the hotels was established, and the fires further stoked, by annual appearancesin Michelin.

All the hotels needed was a separate kitchen for their prestigious new restaurants and cash to buy the culinary stars. As with top footballers, chefs are in a transfer market.

When Bruno Loubet decided to leave the Four Seasons hotel, having won a Michelin star for his cooking, the hotel was able to replace him with Jean-Christophe Novelli, who had won his own star in Hampshire.

Forte did the same thing twice, importing Nico Ladenis (and his two Michelin stars) into the Grosvenor House, and Marco Pierre White (and his stars) into the Hyde Park Hotel.

As international business hotels vie for column inches around the world, and for local custom, a distinctive restaurant has become essential; as important – although possibly for opposite reasons – as a swimming pool or exercise rooms.

Michelin made it possible for all the hotels to compete, by making it clear – albeit as one of its many unwritten rules – that when a chef won a Michelin star, that star was transferable. Hotels have adopted varying tactics to keep their restaurants in the news. International Hotels' St James Court boasts three different cuisines – Chinese, Provençal and international – under one roof. It has just put on an Austrian food festival, with one of that country's top chefs.

Over in Piccadilly, Le Meridien boasts a Michelin-starred chef in David Chambers, but the hotel flies in Michel Lorain, a three star Michelin chef in Joigny, France, as consultant and inspiration for its seasonal menus.

What has united international hotels and top chefs most closely, however, has been the recession and the Gulf War. The consequent fall in conspicuous consumption has forced hoteliers to try to make every inch of their buildings pay. Chefs such as Ladenis, White and Robuchon, who prospered during most of the 1980s, have been persuaded to sacrifice their independence for the opportunity to continue cooking with such expensive ingredients as foie gras, lobster and truffles.

For the chef, the association with a top hotel has also often brought with it a well-oiled publicity department only too keen to promote his name, his cookery books, and even his range of conserves.

Over the past five years the big transformation in London hotel restaurants has been brought about via an association with a top chef. It has been an expensive process and one whose heavy investment – in personnel, refurbishment and new crockery – may not yet be showing a substantial return.

An alternative strategy, pioneered by Bill Kimpton in California, may hold the solution for London's hotel restaurants in the future. His company, Kimco Hotel & Restaurant Management Company, now manages restaurants in 17 different hotels where it pays the hotelier a rent and a percentage of the takings.

This arrangement has so far proved extremely successful for both the hotels and restaurants. It would come as something of a shock to Colonel Newnham-Davis.

The Shangri La Hotel, Singapore

Glyn Genin

Michael Skapinker on property

More than just a place to sleep

A US company said recently that Russian property law was in such disarray that it had no idea who owned the hotel it was running in Moscow. Hotel companies in the US and western Europe usually know who owns their establishments; the difficulty is finding investors who *want* to own them.

The established patterns of hotel ownership in the US and Western Europe were severely disrupted by the fall in property prices in the late 1980s and early 1990s. Hoteliers and investors are now having to establish different strategies for financing hotel acquisitions and new buildings.

Mr Paul Slattery, a London-based leisure analyst with Kleinwort Benson, says the relationship between US hoteliers and property investors used to be stable. American financial institutions regarded hotels as a worthwhile investment. They would buy the bricks and mortar and give a hotel group a contract to run the establishment.

The US financial institutions employed hotel experts and analysts, some of whom became well-known figures in the travel industry. Other, smaller investors also became involved in hotel property ownership, which provided them with tax advantages in the US.

Who are these brave individuals prepared to invest in hotel assets?

The frenetic pace of hotel building, however, meant that the supply of hotel rooms in the late 1980s began to outstrip demand. The economic downturn, the drop in hotel occupancy and the fall in property asset values combined to make the hotel industry a far less attractive proposition.

Mr Darryl Hartley-Leonard, president of the Hyatt Hotels Corporation of the US, says: "Business in the 1980s was based on the beliefs that inflation would increase and demand would grow with supply. Both were violated."

The Marriott Corporation of the US illustrates the dilemma. Marriott's strategy during the 1980s was to build hotels and then sell them to limited partnerships which used the start-up losses as tax write-offs. A combination of changes in US tax laws and falling property prices put an end to this strategy in the late 1980s. Marriott responded by selling off some of its operations, such as airline catering, fast foods and restaurants.

Then, at the end of 1992, Marriott announced it was splitting itself into two companies. One, Host Marriott, would specialise in owning property assets; the other, Marriott International, would run hotels. After a year of dealing with the protests of bondholder groups, the split was formalised in October last year.

Mr Stephen Bollenbach, Host Marriott's president and chief executive officer, says the split has had a positive effect: analysts and institutions who follow his company are now specialists in property rather than leisure and understand the prospects for his business better. Host Marriott's share price has risen sharply since the beginning of the year.

At the end of last year, Inter-Continental Hotels, owned by the Japanese Saison group, announced it was following suit. By the end of this month, Inter-Continental should also have formalised the formation of two companies – one managing hotels and the other owning properties.

Hotel groups in Europe faced a slightly different problem. European hotels were smaller and there were fewer large chains. Many hotels were family owned. European hotel groups which wanted to expand and did not want to invest in new property assets said they hoped to acquire management contracts. Someone else would buy the hotels; they would run them.

Mr Slattery of Kleinwort Benson says the traditional structure of a management contract was that the managing company would receive a fee calculated as a percentage of turnover, say 3 per cent, and, typically, 10 per cent of gross operating profit.

The difficulty for those companies seeking management contracts is that investors in property assets are no longer prepared to bear the risk alone. Mr Hartley-Leonard says bluntly: "The pure management contract has gone. People investing in hotels want to know that the operator is committed to them."

Mr Peter George, group chief executive of the Ladbroke group of the UK, which owns Hilton International, says there are exceptions to this in the developing world. Where the local government believes the presence of a Hilton hotel, say, would increase the attraction of the country to investors and business travellers, it might be prepared to take ownership of the property and ask the Ladbroke subsidiary to manage it.

In other parts of the world, however, companies investing in hotel assets are demanding that the operating company takes a partial equity stake or guarantees specific rates of return to the owner.

But who are these brave individuals who are prepared to invest in hotel assets? In Asia, where there is still a need for new hotels, Mr Slattery says there are property groups and wealthy individuals interested in building or owning hotels.

There are also companies with an interest in buying European hotels. When the debt-laden Ciga group, an Italian-based luxury chain, went on sale recently, there were at least three serious bidders: Host Marriott, Forte of the UK and ITT Sheraton of the US, the eventual winner.

The Forte bid was particularly interesting. Forte originally offered to take over the management of Ciga for £33m in cash. Forte also agreed to insert some of its own luxury hotels, with a value of about £125m into a Ciga operating company.

When it became clear that other bidders were offering more cash, Forte teamed up with the Quantum Fund, owned by Mr George Soros, the US investor. Together they offered £270m. Although the bid was topped by ITT Sheraton, Mr Slattery believes the Forte/Soros combination is an example of the new sorts of financing arrangements that hotel companies will now be examining.

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